Austria Sch22	Indonesia .. Rp3100	Portugal ... Esc100
Bahrain .. Din0.650	Israel NS3.50	S.Arabia .. Rls6.00
Belgium ... BFr48	Italy L1600	Singapore .. S$4.10
Canada ..... C$1.00	Japan Y600	Spain Pta125
Cyprus ..... C£0.75	Jordan Fils500	Sri Lanka .. Rup30
Denmark .. DKr9.00	Kuwait Fils500	Sweden ... SKr8.00
Egypt ...... E£2.25	Lebanon $L125.00	Switz SFr2.20
Finland ... Fmk7.00	Lux LFr48	Taiwan ..... NT$85
France FFr6.50	Malaysia ... Rin4.25	Thailand Bht50
Germany .. DM2.20	Mexico Pes300	Tunisia ... Din0.800
Greece Dr100	Morocco ... Dh6.00	Turkey L500
Hong Kong.. HK$12	Neth Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr8.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Bhopal: Death toll grows as lawyers wrangle, Page 20

World News

Belgrade proposes 87% budget increase

The Yugoslav Government has proposed an 87 per cent increase in spending next year in a draft budget that calls for reduced expenditure on defence and regional development.

The draft calls for total spending of 5,770bn dinars ($4.6bn) in 1988, compared with 3,085bn dinars this year. Page 2

Smoke kills seven

Six adults and a child died yesterday and 400 others were in hospital in Alexandria after chemicals at an army camp caught fire and released clouds of choking smoke.

Plane crash

A French commuter airliner crashed into a wood as it approached Bordeaux airport yesterday killing 16 passengers and crew.

Esprit go-ahead

The second phase of an ambitious Ecu1.6bn ($2bn) programme to promote joint research in information technology, Esprit II, yesterday received the go-ahead from a meeting of European Community Research Ministers. Page 2

New Turkish cabinet

Turkish Prime Minister Turgut Ozal yesterday announced a new cabinet. Page 2

Iranian attack

Fierce fighting is taking place on the south-central Gulf War front, with Iran mounting repeated attacks against Iraqi positions more than 100 miles north of Basra. Page 3

Diplomatic dispute

Relations between Kenya and Uganda worsened further yesterday with each country accusing the other of harassing its diplomats. Page 3

Korean election

Roh Tae Woo, President-elect of South Korea, yesterday announced that elections for the National Assembly were planned for early February. Page 3

Moscow visit

King Hussein of Jordan arrived in Moscow yesterday for talks with Soviet leaders. Page 3

Minister sacked

Nigeria's military president, General Ibrahim Babangida, sacked Foreign Minister Bolaji Akinyemi yesterday and appointed Major-General Ike Nwachukwu in his place.

Swiss appointment

Former schoolmaster Rene Felber, a newcomer to the Government, was appointed Swiss Foreign Minister yesterday.

US mercy plea

The United States appealed to South Africa to spare the lives of five men and one woman sentenced to hang for the "necklace" murder of a black official.

Olympic decision

Hungary and East Germany yesterday became the first Soviet bloc countries to confirm their participation in the 1988 Summer Olympic Games in Seoul.

Road death toll

The number of Japanese road traffic fatalities this year topped 9,000 during the weekend, the sixth consecutive year it has exceeded that figure.

Auditor jailed

An auditor of one of the collapsed Pan Electric group of companies was jailed for two months by a Singapore court yesterday for issuing a false company report.

Contra offensive

The Nicaraguan Contra rebels claimed 7,000 of their guerrillas had captured three key mining towns in a major offensive on the eve of peace talks. Page 4

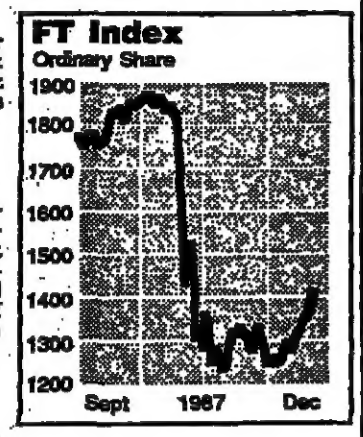
Business Summary

British Gas clinches deal with Bow Valley

BRITISH GAS is investing C$837m ($638.6m) in **Bow Valley Industries**, major Canadian energy and services group, giving the British utility effective control of the company. Under the agreement, British Gas will own 51 per cent of Bow Valley's equity and just under one third of the voting shares. Page 6

WALL STREET: By 2pm, the Dow Jones industrial average was up 3.31 at 1,978.61. Page 38

LONDON: Overnight strength on overseas markets lifted UK equities across a broad front. The FT-SE 100 closed up 33.2 at 1,750.2 and the FT Ordinary index rose 27.3 to 1,405.1. Page 38



TOKYO: Moderate interest in high-technology and pharmaceutical issues buoyed the market. The Nikkei average closed 129.87 higher at 22,956.84. Page 42

REDLAND, British building materials group, has settled its long-running wrangle with New Zealand's **Equiticorp,** by agreeing to buy the rooftile business of **Monier,** Australian building products company, for A$298m (US$213m) cash. Page 21

NEWS CORPORATION, Australian media group owned by Mr Rupert Murdoch, has been blocked by the federal court from acquiring shareholdings in **Australian Associated Press,** the country's only domestic news wire service, and **Australian Newsprint Mills,** the only newsprint manufacturer. Page 22

WESTERN MINING, one of Australia's largest gold and mineral producers, is to spend C$160m ($122.5m) on buying **Northgate Mines,** Canadian gold and copper producer, and bidding for a Canadian mineral exploration company. Page 22

BANK OF SPAIN is to be given tighter control over equity positions on Spanish banks. The bank will have the right to block investors seeking to control banks through shareholdings of 15 per cent or more. Page 21

PARIS CLUB of creditor nations has agreed debt rescheduling packages with Poland and Ivory Coast. Page 2

JAPANESE Government's $5bn sale of 48m shares in **Japan Air Lines** was completely sold out. But the share price fell in first day trading. Page 22

EUROPEAN COMMISSION predicted farm incomes in the Community would fall 3.6 per cent in real terms in 1987. Page 25

SANTA FE Southern Pacific and **Henley Group** have failed to agree on terms for purchase of Henley's 14.7 per cent stake in the railway, natural resources and property group. Page 21

BAYERISCHE VEREINSBANK, fifth biggest bank in West Germany, has reached agreement to buy the Milan and Rome offices of **First National Bank of Chicago** for an undisclosed sum. Page 21

SIEMENS, West German electronics group, plans to co-operate with **Allied Signal** of the US in developing, making and selling new products to the world motor industry. Page 22

MIDLAND BANK and **Hongkong and Shanghai Banking Corporation** cleared the final hurdles to what is regarded as a trial link of the two. Page 25

Israeli Arabs in mass strike as Gaza riots intensify

BY OUR JERUSALEM CORRESPONDENT

ISRAEL'S 650,000 Arab citizens brought central Israeli towns to a halt yesterday in an unprecedented 24-hour protest strike as Palestinian riots in the occupied West Bank and Gaza Strip intensified.

Three Arab youths were shot dead and at least 14 wounded in yesterday's incidents in the West Bank.

A fourth Arab died of wounds sustained 12 days ago, bringing the official death toll in this month's disturbances – the worst in 20 years of Israeli occupation – to 19. According to unofficial figures, as many as 24 may have died.

The strike brought all business and education to a halt in the Arab towns and villages of Galilee and the Sharon plain. Israeli Arabs observed a minute's silence at noon in memory of victims killed and wounded across the pre-1967 war border.

This was the first mass demonstration of its kind by Israeli Arabs, who have increasingly identified themselves with the Palestinians of the occupied territories.

The protest provoked resentment on the Israeli right, but a proposal by a leading Likud backbencher, Mr Chaim Kaufman, to impose restrictions on their movements was rejected by his own party caucus yesterday.

The stoppage was mirrored in the West Bank and Gaza, where shops and schools remained closed and public transport came to a standstill.

Hardly any of the 60,000 day labourers from Gaza and 55,000 from the West Bank reported for work at Jewish-owned building sites, factories and hotels.

The absence of Arab workers was reported to have hit production at many plants. Mr Chaim Kamenitz, the managing director of the Argaman textile group, estimated that output in his factories was down 20 per cent.

Leaders of both the construction and hotels industries were, however, putting a brave face on the potential for longer-term disruption.

Mr David Stern, chairman of the Israel Contractors' Association, said that until yesterday some Arab labourers had continued coming to work. Only a few days had been lost so far, he said. Jewish workers were also able to fill in for the absentees.

"I don't want to estimate the damage or calculate our losses," Mr Stern said. "We'll do that once this carnival is over."

Arabs make up 25 per cent of the hotel workforce. Mr Eli Paposhado, president of the Israel Hotels' Association, said: "The truth is that it hasn't affected us. Over the past few weeks only a few individuals have not been turning up. Today we cancelled leave for our Jewish staff

Workers from Gaza are coming under increasing pressure from Palestinian militants to stay away. On Sunday, a bus full of labourers was stopped and set on fire before it could leave the strip.

If most of the workers comply with the stoppage, it could have a severe impact since much unskilled, low-paid work is no longer done by Israelis.

Paradoxically, however, a sustained stoppage might also speed the end of the disturbances, because the Arab workers – most of them refugees with large families – depend on their Israeli wages.

Continued on Page 20

Bonn spurns OECD call to speed up pace of economic growth

BY IAN DAVIDSON IN PARIS

THE WEST German Government yesterday publicly rejected in advance a recommendation by the Organisation for Economic Co-operation and Development that Bonn should take steps to accelerate its economic growth.

In its semi-annual Economic Outlook, to be published today, the OECD argues that West Germany "necessarily" has a central role in helping Europe alleviate its economic difficulties because it has room for faster economic growth.

The West German Government has for some time been under pressure from the US and other western countries to raise its economic growth rate in order to curb its large balance of payments surplus and help alleviate the downward pressure on the dollar.

In addition, revised OECD projections since the international stock market crash have suggested that Bonn has increased room for economic expansion because its growth rate in 1988 is forecast to slip from 2 per cent to 1.5 per cent. Mr Gerhard Stoltenberg, the West German Finance Minister, said at the weekend that he now expected growth of between 1.5 and 2 per cent next year.

However, in a dramatic infringement of normal diplomatic procedures, the German delegation to the OECD issued a press release categorically rejecting the recommendation. "From the German point of view," it said, "the present economic situation does not require further measures."

The OECD's recommendation is equally categoric. "While the authorities have set in motion previously agreed policy changes, it is the assessment of the OECD – and most other observers – that, even taking account of the 1988 tax cuts and discounting any adverse direct effects of the stock market crisis, the German economy may continue to grow below its medium-term potential over the remainder of the 1980s.

"Additional macro-economic policy action is necessary to achieve more satisfactory performance. There is scope, too, for improving performance through structural policies."

Disagreements between national capitals and the OECD Secretariat over economic policy options are nothing new, at least behind the scenes. But this argument between Bonn and the OECD has acquired a peculiarly public character.

A month ago, on November 17, to the obvious irritation of the German delegation, the committee of top national economic offi-

Continued on Page 20

British Airways wins takeover battle for BCal

BY CLAY HARRIS IN LONDON

BRITISH AIRWAYS yesterday won the takeover battle for British Caledonian Group with an increased £250m ($455m) cash bid which pre-empted Scandinavian Airlines System's plan to raise its own partial offer.

After BA's new bid was recommended by the BCal board, Investors in Industry (3i), the clearing bank-owned investment group, sold its 41 per cent stake to BA. This gave BA a majority and it declared the bid unconditional.

Mr Helge Lindberg, SAS deputy chairman, said: "We were prepared to put in a new offer that was competitive with the £200m offer from BA." When BA's higher terms were revealed, however, SAS withdrew.

Yesterday's events spelled the end to BCal's 17-year effort to become the "second force" in UK commercial aviation and leaves BA as the country's only significant long-haul carrier.

They also concluded a bitter five-month battle for BCal. In the latter stages, SAS's role as an airline half owned by three Scandinavian governments seeking a significant stake in BCal had met considerable political opposition in the UK.

"BA was prepared to pay anything, whatever we did, to firm up its monopoly," Mr Lindberg said. "In the end, BA seemed to have more to lose than SAS stood to gain, and BA consequently placed the higher bid."

The Scandinavian airline had offered £110m for 26.14 per cent of BCal's shares and would have injected another £20m as part of a complex recapitalisation package which BCal had recommended on December 9.

Lord King, BA chairman, said: "We consider that the price we have paid will be fully justified in the future trading and earnings performance of BA. If we had failed to grasp this opportunity for expansion across the

Lord King: "The price will be fully justified."

BCal route network, it might not arise again in the short to medium-term future."

The winning bid was worth more than double the £119m cash terms which BA offered on November 20. In fact, it exceeded the £220m cash price to which BCal agreed in July, before a reference to the Monopolies and Mergers Commission, and nearly matched the £257m value of BA's pre-market crash share offer.

BA produced the knock-out offer in reply to an ultimatum delivered to both parties last Friday by Goldman Sachs, the US investment bank advising BCal.

Goldman Sachs told BA and SAS that the BCal board would meet at noon yesterday and consider whatever offers were on the table. Only BA came up with a new bid.

BA also delivered an ultimatum yesterday. After finalising its increased bid, BA told 3i that the offer would be withdrawn if

Continued on Page 20

Philippines ferry toll 1,500 after tanker collision

By Richard Gourlay in Manila

MORE THAN 1,500 people are missing, feared dead, in the Philippines after a passenger ferry collided with an inter-island tanker in what seems likely to be the world's worst peace-time maritime disaster.

Some of the 27 survivors who were plucked from the water by a passing ship said passengers leapt from the crowded ferry into water that was covered in a sheet of flames.

Thirty-six hours after the collision in the pitch dark of Monday morning, rescuers combing the area 60 miles south of Manila in helicopters and aircraft had found an oil slick but neither signs of wreckage nor more survivors.

The 2,140-ton ferry Dona Paz was packed with holidaymakers going to Manila for Christmas when it struck the tanker in calm seas but poor visibility. The ferry's owner said there was no way of telling how many people were on board but survivors spoke of terrible overcrowding.

After being rescued from the tropical waters off Mindoro, 19-year-old survivor Renato Asistorga said the water teemed with more victims of the collision than rescuers could handle.

"I saw the floating bodies of children and old people in the water. The rescuers did not pick them up any more, they were busy saving those still alive," he said in a Manila hospital.

The coastguard said there was an official count of 1,556 passengers and crew on the two vessels, which sank in waters with an average depth of 530 metres (1,740 feet).

The Dona Paz manifest listed 1,493 passengers but the coastguard said it carried more than 100 more.

It is not the first such disaster to strike the Philippines. In 1980, hundreds died when a ferry struck a tanker off the coast of the island of Leyte. When the Titanic struck an iceberg in the Atlantic on its maiden voyage in 1912, it went down with 1,513 people on board.

Ferries are a common means of transport, especially among poorer people, in the archipelagic Philippines where there are more than 7,000 islands. There is rarely tight control either over the numbers carried, the navigational equipment used or the safety standards. Last week a ferry sank after it was caught on the edge of a typhoon, taking with it two candidates for the local elections being held early next year.

It completes a terrible year for disasters in the Philippines. In November, more than 650 died in the worst typhoon to hit the country in a decade, and last week a Philippines Airlines plane crashed, the second in a year, this time killing 16 passengers and crew.

Reagan welcomes signs of end to budget dispute

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

CONGRESS appeared yesterday to be on the verge of approving a $30bn package of tax increases and spending cuts designed to implement the first stage of a two-year $76bn plan to reduce the Federal budget deficit.

President Ronald Reagan signalled his approval of decisions which were made at the weekend, settling some of the outstanding issues which had been blocking approval of the budget legislation. "I think great progress has been made. I hope they can get (a budget package) down here that I can sign so we can all go home for Christmas," he said.

Approval of the budget legislation three months after the beginning of the first fiscal year to which it applies would prevent $24bn of automatic spending cuts provided by the Gramm-Rudman Hollings budget reform legislation from taking effect.

It is also expected to trigger the release of a statement by the Group of Seven leading industrial countries drawing attention to their recent success in separately adjusting their economic policies in ways which, it is hoped, will help to stabilise the world economy.

The statement is expected to paper over differences about how much of a priority ought to be attached to efforts to stabilise the dollar. As a result, the financial markets' reception of the statement will be closely monitored by G7 officials.

A key breakthrough in the budget deficit negotiations in Washington came on Sunday evening when White House and Congressional leaders reached a compromise on a spending provision allowing the US to send a further $8.1bn of aid to the Contra rebels who are seeking to overthrow the Sandinista Government in Nicaragua.

The compromise calls for a further vote on the question of additional Contra aid on February 3 or 4.

Several other issues still remained to be resolved. These included, for example, how precisely spending cuts for the Medicare and Medicaid systems should be implemented and the fate of a provision requiring broadcasting companies to allow opponents of material that has been published free air time to express their views.

But with both Congress and the White House now anxious to get away from Washington for Christmas, it is expected that these questions can be resolved quickly.

Although the budget accord is expected to reduce the budget deficit in the current fiscal year below the levels it would otherwise have reached, private economists continue to predict that the 1988 fiscal deficit will nevertheless be higher than the $148bn recorded in the 1987 fiscal year.

US budget deficit 'set for sharp increase' Page 4

Copper prices hit record high

BY KENNETH GOODING, MINING CORRESPONDENT, IN LONDON

NEWS THAT stocks of copper in London Metal Exchange warehouses – already at a dangerously low point – had fallen by a further 7,500 tonnes to 42,875 tonnes, the lowest since July 1974, sent prices soaring on the London Metal Exchange yesterday.

The cash price for Grade A copper rose to £1,695 ($3,051) in early trading, £77.50 above Friday's close, before ending the day at £1,684.50 where it was well ahead of the previous peak of £1,610 achieved on November 25.

This follows four years of copper demand outstripping supply, and stocks have been whittled away. Mr Robin Bhar, analyst at Rudolph Wolff, the London-based metal trader, said that if present trends continued, world-wide copper stocks would reach about 570,000 by the year end, equivalent to only four-and-a-half weeks consumption.

Copper shortages have already begun to have an impact in North America and Mediterranean countries, and users in other parts of Europe are becoming increasingly nervous.

Mr Peter Sellars, general manager, purchasing for BICC Cables in the UK pointed out that users often first hear of supply difficulties when a shipment is missed. "And most copper for Europe is three or four weeks away."

Traders emphasise that the current shortage is only of high-grade copper and suggest it has been caused by a world-wide lack of smelting capacity.

For example, Noranda, the large Canadian natural resources group, has told customers in the US and Europe that they can have only about one quarter of the high grade copper it contracted to supply in January and February next year because of a series of problems at its Quebec smelter.

The Japanese, like other high-grade copper producers, failed to predict the continuing strong demand from the building and motor industries this year and deliberately cut back smelting capacity, with the result that Japan has had to import the metal.

Taiwan's Keelung smelter was recently struck by a typhoon and will be out of action for six to eight weeks. Although it is a relatively small unit, producing about 50,000 tonnes a year, traders are concerned that this might exacerbate the shortage early next year.

Analysts believe the copper supply will not improve until the second half of 1988

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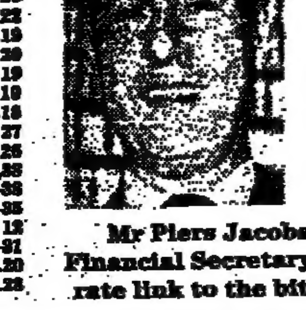


HONG KONG TURNS THE TIDE ON DOLLAR SPECULATION

Mr Piers Jacobs, Hong Kong's Financial Secretary, 'will defend the rate link to the bitter end,' Page 20

EC ministers approve second phase of Esprit

BY WILLIAM DAWKINS IN BRUSSELS

THE SECOND phase of an ambitious Ecu1.6bn (£1.1bn) programme to promote joint research in information technology yesterday got the go-ahead from a meeting of European Community research ministers.

The decision brings to an end more than a year of uncertainty and delay over the funding for Esprit II, which involves about 500 EC companies and is the largest programme in the European Commission's overall Ecu5.2bn research budget.

All that remains now is for the European Parliament to give its formal assent within the next few months before Esprit II's adoption by member-states. The programme is held by Brussels as a key to helping the EC keep up in the world information technology race, which absorbs more than $35bn R&D spending annually.

Esprit II's budget, covering the five years to the end of 1992, was slashed from the original Ecu2.5bn proposed by Brussels during the long controversy over the EC's overall research budget, held up solely by the UK on the grounds that it was wasteful and inefficient.

Under the programme, the commission contributes half the cost of pre-competitive research into information technology between companies in different member-states, so the Ecu1.6bn agreed for Esprit II yesterday represents total spending of Ecu3.2bn.

Nearly 3,000 full-time research scientists are working on the 200 projects covered by the first Ecu1.5bn phase of Esprit, which runs out next year. Esprit projects include common software standards for manufacturing and office automation systems, research into advanced components, information processing and micro-electronics.

Research ministers also agreed yesterday to provide extra funding for collaborative research into using new technologies in traditional industries and a separate project to study the long-term damage from the Chernobyl nuclear disaster last year.

The Brite industrial technology programme is to get an extra Ecu60m on top of the Ecu65m which was to have covered it from 1985 to 1989. Brite's first phase has been more than four times oversubscribed, so the new funding is to be drawn from its Ecu400m second stage, due to run from next year until 1991.

Radiation research is to get an extra Ecu10m. This is on top of the Ecu58m agreed for 1985 to 1989 and is to cover studies into how radiation affects food and plants after an accident.

Brussels urged to look again at research bodies

BY OUR CORRESPONDENT IN BRUSSELS

THE EUROPEAN Commission was yesterday accused of not going far enough in its plans for increasing efficiency at the EC's much criticised four Joint Research Centres.

A meeting of the EC's 12 research ministers was unable to accept wide-ranging commission proposals for tightening up management and attracting more private funding at the centres in northern Italy, West Germany, Belgium and the Netherlands.

The EC-backed science laboratories' 2,260 staff conduct research into a wide range of disparate subjects from materials testing to nuclear safety and alternative energy and absorb roughly a tenth of commission technology spending. Brussels will now have to toughen up its reorganisation plans for the next ministerial research meeting in April.

Mr Heinz Reisenhuber, the West German Research and Development Minister, due to take the chairmanship of the Research Council next year, called for more details of how the centres' performance should be monitored. Mr Kenneth Clarke, the UK Trade and Industry Minister, called for better control on areas where JRC work duplicates other EC research.

The commission is proposing that the centres' almost total dependence on the EC research budget for their Ecu150m annual income should be scaled down to 60 per cent by the end of the decade, a change which Britain, West Germany and the Netherlands feel should go further and faster.

Brussels also suggests that the JRC should employ more younger scientists on short contracts.

Member states did however agree on broad outlines for the centres' future, which included more autonomy and less interference from Brussels.

Paris Club in deals with Poland and Ivory Coast

BY GEORGE GRAHAM IN PARIS

THE PARIS Club of creditor nations has agreed debt rescheduling packages with Poland and Ivory Coast after a round of negotiations last week.

Poland's official debts are to be rescheduled over a period of 10 years, with a five-year grace period. The agreement, which wraps a number of repayments covered by earlier accords in with current repayments, is viewed as significant since it represents the normalisation of Poland's relations with its creditors.

It leaves unanswered a number of questions about the country's financial future, since it includes only repayments due up to the end of 1988.

For Ivory Coast, the Paris Club agreement allows the rescheduling of some $600m of official debt repayments, and is expected to pave the way for a pact with the country's commercial bank creditors.

The terms of the Ivory Coast agreement – rescheduling over 10 years with six years' grace – are in line with traditional Paris Club conditions. With a per capita income of around $620 a year the country is not viewed as qualifying for the longer rescheduling periods recently approved for some of the poorest countries of sub-Saharan Africa such as Somalia and Mozambique.

Italians launch reform manifesto

By John Wyles in Rome

THE introduction in Italy of an electoral system similar to that used in France has been launched in a manifesto signed by 30 luminaries of Italian culture, science and industry.

The initiative, choreographed by Mr Mario Segni, the Christian Democrat MP, adds spice to the lively debate about how to make Italy "governable."

In the past fortnight, Mr Bettino Craxi, the former Prime Minister and leader of the Socialist Party has hogged the limelight on this issue. He has had separate talks with all of the other main party leaders, including Mr Alessandro Natta of the communists, and this week plans to talk to the fascists and the radicals.

In a newspaper interview published at the end of last week, Mr Craxi was vague about the political changes which he thought might be agreed between the parties. However, warning that Italy's needs were so great that the reform process must get under way in 1988, he obliquely threatened to force a general election if it remained stalled.

The absence of any evidence of agreement on the substance of reform however strengthens the general scepticism about the likelihood of it taking place. Mr Segni says that the electoral reform manifesto, which has been signed by such people as Mr Umberto Agnelli of the Fiat group, Mr Alberto Falck, the steelmaker and Ms Rita Levi Montalcini, the Nobel prizewinning scientist, has been borne of the conviction that popular pressure has to be organised to push the parties in the direction of reform.

The virtues of the French electoral system, which is based on two rounds of voting, with the two leading challengers for any constituency confronting each other in the final round, are seen as forcing a reduction in the number of parties and presenting voters with a choice of alternative governments.

Mr Craxi has discussed electoral reform with his counterparts in other parties as well reorganising parliament to speed up decision-making. If there is to be any final package, it would be more likely on the latter than the former.

There is a point of view, propogated most strongly by Mr Giorgio La Malfa, secretary of the tiny Republican Party, that much of the debate generated on political reform is rather more about a governmental formula capable of finding a substitute for the administration of Mr Giovanni Goria, the Christian Democrat Prime Minister, which may not survive the early spring.

With the Communist Party now embracing the idea of political reform and making unusually cosy noises about Mr Craxi, Mr La Malfa and leaders of the other small parties fear a rapprochement between the Christian Democrats, the Socialists and the Communists. This need not necessarily bring the Communists into government, but it could lead to a change in the rules of the political game at the expense of the smaller parties.

Ozal cabinet likely to disappoint radicals

BY DAVID BARCHARD IN ANKARA

THE TURKISH Prime Minister, Mr Turgut Ozal, yesterday announced a new 24-member cabinet following the Motherland Party's general election victory on November 29.

Initial reaction in Ankara was that the list, which contains 10 fresh faces, would disappoint free market economic radicals in the Government, but would please the right wing of the party.

The name of Mr Mehmet Kececiler, the Islamic Fundamentalist deputy leader of the party, was missing from the cabinet. He is thought to have been dropped at the insistence of President Kenan Evren.

Mr Kaya Erdem remains the deputy Prime Minister, in spite of widespread criticism among many of Mr Ozal's younger economic advisers who regard him as an obstacle to further free market reforms.

The new Foreign Minister is the outgoing Tourism Minister, Mr Mesut Yilmaz, 40. Mr Yilmaz does not speak English and his appointment is probably a signal that the Prime Minister intends to run foreign policy for himself.

Initial reaction was that the list, with 10 fresh faces, would disappoint free market radicals

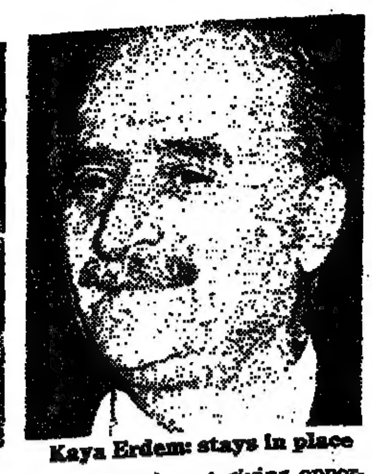
The new Industry and Trade Minister is Mr Sukru Yurur, one of the leading rightwing nationalists in the Motherland Party. His appointment is a surprise because it comes over the heads of candidates with stronger economic backgrounds, such as Professor Ekrem Pakdemirli, who has been made Minister of Communications, and Mr Yusuf Bozkurt Ozal, the Prime Minister's younger brother who becomes a Minister of State. Mr Yusuf Ozal, head of the State Planning Organisation, had been tipped as a possible economic overlord.

Another of Mr Ozal's best-known lietenants, Mr Adnan Kahveci, has also been made a minister of state. The cabinet contains altogether nine ministers of state who work inside the Prime Minister's office, and 14 departmental ministers.

Mr Ozal is known to have wanted to alter the the cabinet and ministerial structure and to create deputy ministers but he was opposed by President Kenan Evren who seems to have been able to exert more influence on the cabinet list than expected.

"I was expecting that many of the old cabinet would stay in place," said one Turkish analyst yesterday. "But this is a relatively lacklustre list in which Mr Ozal is clearly not giving opportunities to the most able people around him. It looks rather as if he is primarily concerned to strike a balance inside his party and with some parts of the bureaucracy."

Ozal: balancing act



Kaya Erdem: stays in place

Belgrade proposes 87% budget increase

BY ALEKSANDAR LEBL IN BELGRADE

THE YUGOSLAV Government has proposed an 87 per cent increase in spending next year in a draft budget that calls for reduced expenditure on defence and regional development.

The draft calls for total spending of 5,770bn dinars(£2.5bn) in 1988, compared with 3,085bn dinars this year. The federal parliament, which is considering the draft, is set to press for considerably higher cuts in all items of spending, including the armed forces and the diplomatic service.

Mr Svetozar Rikanovic, the Finance Secretary, told parliament that the federal budget's share of the country's social product (roughly equivalent to gross domestic product) would be only 6.5 per cent, which is one percentage point less than planned for 1986-1990.

Rikanovic: army spending down

He also said that expenditure for two of the most important items – armed forces and assistance for underdeveloped regions – had been reduced by 5 per cent compared with the plan initially voted for by parliament.

The armed forces were supposed to get the equivalent of 5.2 per cent of the national income and will get 4.94 per cent instead, about 4,286bn dinars, while the less developed regions, which are entitled to 0.53 per cent of the national income, would also get 5 per cent less.

Expenditure for all other beneficiaries will be reduced by 10 per cent compared with what they were supposed to obtain on the basis of previous decisions.

Defending the military budget, Admiral Branko Mamula, the Defence Minister, said that Yugoslavia could not ignore threats to its security. He admitted that the recently-signed treaty between the Soviet Union and the US scrapping intermediate nuclear forces was an important positive development but said the danger to smaller countries had not been reduced.

Admiral Mamula said there was a 50 per cent increase in attacks on armed forces personnel and facilities compared with last year, as well as an intensified activity of foreign intelligence services in Yugoslavia and among Yugoslav workers abroad.

The strengthening of nationalist feeling in Yugoslav society had also taken place in the armed forces. Albanian nationalist incidents had increased by 50 per cent this year and accounted for 57 per cent of total cases, followed by Serbian (up 41 per cent), Slovenian (up 41 per cent) and Moslem (up 20 per cent).

Norwegian Prime Minister in attempt to allay krone fears

BY KAREN FOSSLI IN OSLO

NORWAY'S Prime Minister, Mrs Gro Harlem Brundtland, said yesterday parliament would support measures to prevent devaluation of the Norwegian krone in 1988, in spite of mounting pressure for its devaluation.

The krone was last devalued in 1986 by 12 per cent. Economists say that to fend off an overheated economy and to restore its balance it will be necessary in 1988 to devalue by up to 20 per cent or introduce price/wage regulations.

Mrs Bruntland said yesterday that Norwegians must accept pay rises next year below the country's inflation rate – currently 7.5 per cent.

Norway's economy is suffering from a tight labour market (in October registered unemployment was just 1.5 per cent), a weak currency and soaring interest rates.

Last week the krone index fell to 114.35, its lowest level since a year ago, when it was 114.50. The Central Bank said that it would intervene to prop up the krone by raising interest rates by up to 2 per cent.

Mr Tormodd Andreassen, chief economist and vice president at Christiania Bank, believes that Norway's economy is on a "collision course" because of bleak prospects for Norwegian exports resulting from the downward pressure on oil prices.

The loss of confidence in Norway's economy has been fuelled by the Government's inability to introduce strong enough austerity measures in its 1988 national budget proposal.

Reduced economic growth and a reduction in prices for exports, namely oil, will significantly affect government revenue in 1988. Oil accounts for about 12 per cent of Norway's gross national product. In 1986 petroleum products and shipping services accounted for 46 per cent of the value of Norway's total exports. The slump in its price in 1986 also contributed to a reduced current account balance equal to 12 per cent of GNP.

In its budget proposal the Government works on an oil price of $18.60 a barrel to calculate expected oil income for 1988. However the oil price has hovered below $18 per barrel for several weeks. After the Opec conference, which did little to restore confidence in the future of the oil price, a senior Norwegian finance official admitted that "as things seem now, our oil price scenario could be too optimistic".

Norway stands to lose some NKr9bn annually in export revenue and tax revenue if the oil price falls below $16 per barrel.

Bonn troops may be accepted

BY OUR OSLO CORRESPONDENT

NORWAY'S Prime Minister, Mrs Gro Harlem Brundtland, said yesterday she did not exclude the possibility of allowing West German troops on Norwegian soil.

The issue is controversial in Norway where feelings about the wartime occupation by Hitler's forces still run high.

Nato officials said in September that German combat troops might set foot in Norway for the first time since the war, as part of a planned multi-national force to cover the alliance's thinly-defended northern flank.

Canada's withdrawal of its 5,000-strong Canadian Brigade to West Germany has forced Nato to seek other options.

Stationing of foreign troops in Norway can only be allowed during exercises as Oslo prohibits the permanent stationing of foreign troops during peacetime.

In July Norway and France agreed to broaden their defence co-operation in armaments production and through possible participation of French troops in Norway during military manoeuvres.

Norway is seeking to develop its basis of military contact with other European countries so as not to be so dependent on co-operation with the US.

The Prime Minister's office said that there could be some problems in deploying West German troops during Norwegian military exercises because "certain interpretations of the Soviet-Finnish Pact make it difficult to post West German troops near the Soviet border".

Nazi allegation against leading broadcaster

By Haig Simonian in Frankfurt

ONE OF West Germany's leading broadcasters was yesterday urged by his employers to stand down as soon as possible following revelations about his journalistic activities under the Nazis.

Mr Werner Hoefer, whose "Internationale Fruehschoppen" discussion programme is watched by millions of Germans, Swiss and Austrians each Sunday lunchtime, became a controversial figure after disclosures in last week's Der Spiegel magazine about articles he is said to have written for a Nazi newspaper.

In the most extreme example, Mr Hoefer, aged 74, is quoted as indirectly justifying the execution of Karlrobert Kreiten, a talented pianist, by the Gestapo in 1943.

The popularity of the programme, in which five domestic and foreign journalists discuss topical issues, has much to do with Mr Hoefer himself.

Last week, two journalists, Guenther Hammer of the Westfaelische Rundschau and Andrew Fisher of the Financial Times, dropped out of a programme pending a clarification by Mr Hoefer of his activities. He has maintained that his articles were amended by his editors and did not always reflect his views. He says he is taking legal action against the magazine.

Management at Westdeutsche Rundfunk met yesterday and issued a diplomatically-worded call to Mr Hoefer to resign. The issue has divided German opinion and led charges that the TV station had not stood by Mr Hoefer.

EC cuts trouble Italy's steelmen

By David Lane in Milan

ITALY'S steelmakers are awaiting a decision from Brussels on future cuts in Europe's steel capacity with contradictory feelings.

They agree that radical changes must not be further delayed. Yet they want matters left as they stand with production quotas renewed. EC industry ministers meet in Brussels today to discuss plans for further capacity cuts.

Mr Adamo Adani, chairman of Assider, the steelmakers' association, argues that rationalisation would not be achieved by liberalisation and applying the rules of market forces. He considers that quotas should be maintained for at least another year, arguing that Europe's steel industry will incur even greater losses if companies are permitted to produce as much as they wish.

He believes that freedom would cause a large increase in output, with producers aiming to improve plant utilisation and gain market share.

"Excess capacity in Europe amounts to about 30m tonnes. While we all recognise that reductions are needed, it is impossible to reach agreement on whose plant should close," said Mr Adani.

At the start of last year Italy had Europe's second-largest steel industry with total capacity amounting to a little more than 30m tonnes. Along with West Germany, which had a capacity of 45m tonnes, it looks most likely to be hit by a future round of plant closures.

"Old and inefficient lines have already been closed. Now we face the difficult job of scrapping modern and efficient plant," said Mr Adani.

Capacity is the moot point. Italian steelmakers are sceptical about declared production capacities. There is widespread belief that the authorities have been given inflated figures which will allow cuts to be made on paper without any real reductions being made.

A spokesman for Falck, Italy's largest private sector steelmaker, said that it was essential that reductions in capacity should be tied to specific plant. "Scrapping needs to be checked," he said, reflecting the prevalent feeling of distrust.

Falck has already rationalised its capacity. The company is closing a sixth electric furnace, leaving three in operation. It has shut down wire rod, merchant bars and blooming mills, and other plant.

Attention is focused on state-owned Italsider whose annual production of about 11m tonnes is equal to about half Italian steel output. It is accepted that at least one of Italsider's coils mills will be closed. The main victim will be either the Bagnoli plant in Naples or Taranto.

Large job losses are inevitable. Over the past 15 years Falck has reduced its workforce from 12,500 to 4,500. Mr Adani said that the industry must shed a further 35,000 jobs to reach a viable level of 30,000. Italsider will bear the brunt of these cuts, losing between 25,000 and 30,000 workers.

The task will not be easy because both Naples and Taranto are in the Mezzogiorno where investment has been encouraged in order to create employment. All Falck's labour cuts were in wealthy Lombardy, but even so the company encountered severe difficulty in implementing its rationalisation programme.

Haig Simonian reports on increasing pressure on Bonn to reform outdated laws regulating store opening times

W Germans still waiting to ring in changes in shop hours

SANTA HASN'T walked out yet, but all is not well in the Grotto. For while the tills are ringing as loudly as ever in West Germany's department stores this Christmas, there are growing rumbles of discontent under the tinsel and bright lights.

Kids whispering their Christmas present lists have probably been spared, but their parents have heard it all before. The perenniel debate about Germany's archaic *Ladenschlussgesetz* – its shop closing law – is rumbling once again.

This time, however, the pressures for change are stronger than ever. West Germany may have altered almost beyond recognition since 1956 when the law was passed, but stores are still required to close their doors by 6.30pm during the week and 2pm on all but one Saturday a month.

This week's cover of *Der Spiegel*, West Germany's weekly news magazine, is devoted to the issue, which has always been emotive. Some foreign governments, pressing Bonn to expand the economy, are even starting to treat shop reform as a touchstone of the Government's desire to liberalise.

Even Mr Alfred Herrhausen, chief executive of Deutsche Bank, who is said to have the ear of Mr Helmut Kohl, the Chancellor, had his say last month. Complaining of over-regulation in West German business in general, he despaired of the difficulties facing any worker trying to shop during the week. All that was available were a few short hours on Saturdays, he noted, when busy executives such as himself would prefer to stay at home with their families.

Longer opening times have proved popular with shoppers

No one is talking about a revolution, however. The issue is simply a plan to extend shopping until 10pm one evening a week from 1989. The agreement to amend the previously sacrosanct shopping law was part of the deal hammered out between the liberal Free Democrats and the majority Christian Democrats as part of their accord after the general election in January.

The public seems keen on an extension. Last month, an experiment in Hamburg with shopping to 9pm drew more than 100,000 people to the city centre, filling the Passagen, Hamburg's elegant new indoor shopping precincts.

By contrast, most of the big department stores in the Moenckebergstrasse, the city's main shopping street, stayed dark. In what has been called an unholy alliance, neither the *Deutsche Angestellten Gewerkschaft* and the *Gewerkschaft Handel, Banken und Versicherung*, the two unions involved, nor the country's big store groups, want to see a change in shopping hours.

Ironically, the present bout of friction behind the counter, which has led to threats of lightning strikes in certain stores, is about how to consolidate that opposition.

The unions are demanding a cast-iron commitment from the employers to 6.30pm closing as part of this year's pay round for shop workers, now being negotiated on a regional basis around the country.

On Tuesday, one day before they were due to start, an industrial tribunal in Dusseldorf blocked the DAG's plan for rolling strikes in North Rhine Westphalia. The union has agreed to suspend its action for the time being.

Meanwhile, the HBV had been planning similar action in Baden-Wuerttemberg. An industrial tribunal in Stuttgart earlier this month turned down an appeal by five department stores to have the strikes prohibited.

However, the union has now decided to suspend its action, too, in view of the Dusseldorf decision, although it intends to fight the judgment "by all legal means," according to Mr Klaus Eilrich of the HBV.

The HBV argues that shoppers will ultimately lose out as stores make up for the costs of longer opening through higher prices. Overall turnover will not rise, consumers will simply adjust their normal shopping patterns, he says.

The union even denies that longer opening hours would create more jobs and result in better pay for those working overtime. It claims that members – often women – will suffer because of longer hours, leaving them less time to look after their families. Such employees could not take on the work even if they wanted, says Mr Eilrich.

However, the HBV's concern that members might lose some of the social benefits they have fought for over the years has a slightly unpleasant edge. No one uses the word "immigrant," but that is clearly what is implied when the union talks of a potential pool of workers who might take on work its members would shun if shopping laws were changed.

The employers' position is more complex. Mr Wulf Ridder of Kaufhof, one of Germany's leading department store chains, denies there is any real need to stay open longer. He adds that many shops outside city centres close early on those Saturdays when later shopping is allowed.

The problem facing Kaufhof and similar chains is that under West Germany's co-determination laws, workers' councils are allowed a considerable say in running the business. Retailers in greenfield sites are expected to benefit from a change. "I have always been in favour," says Mr Helmut Wagner, chief executive of Asko, one of the country's fastest growing out-of-town discount chains. His dream would be 24-hour opening, as happens in some of the group's stores in the US.

Mr Bernd Otto, chief executive of Co-op, takes a similar, though slightly more restrained, view. "We would like a small liberalisation of, say, one evening a week," he says, though he is still not entirely persuaded by the arguments for longer hours.

The Co-op is in an unusual position. It still has a substantial presence in the high street, while more recently it has been developing large greenfield shopping and do-it-yourself sites. Hence Mr Otto's view that the law should be relaxed at least enough to allow each store group to make up its own mind.

"YOU'RE NOT allowed to sell a mother milk for her baby after 6.30pm, but you can sell the father two bottles of whisky," says Mr Walter Fiedler, proprieter of a successful *trinkhalle* in Frankfurt's West End.

Somewhat similar to a UK off-licence, West Germany's *trinkhallen*, which are usually unappealing little kiosks in residential areas, can stay open outside normal shopping hours.

The shutters come down officially on food sales at 6.30pm, though the kiosks are open until 10pm.

However, anyone wanting alcohol and tobacco need not worry. Mr Fielder, who has run his rather superior *trinkhalle* for almost six years, does a brisk trade in tobacco and lager and sometimes spirits too.

"I can sell everything unhealthy after 6.30pm. But whatever's healthy can't be sold," he says. "So while the father ends up in the clinic, the baby stays howling at home until the shops open in the morning."

Mr Fiedler is reluctant to say whether he breaks the law and sells food after hours too.

"Everything goes – as long as no one makes a big fuss about it," he says. "No one's complained, because the people are happy to buy what they want, when they want."

Among the excuses used by *trinkhalle* owners are that goods are being given as a present, or for later payment. Best of all is the argument that a proprieter may just be giving his customer some bread free and charging two marks for the plastic bag. Even in Germany, it seems, there are ways around the law.

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Iranians mount attacks to test Iraqi defences

BY OUR MIDDLE EAST STAFF

FIERCE FIGHTING has broken out on the south-central Gulf war front, with Iran mounting repeated pushes against Iraqi positions more than 100 miles north of the besieged Iraqi port of Basra.

Iran's national news agency Irna said that Iranian forces killed or wounded 1,000 Iraqi troops and seized 12 square miles of Iranian territory yesterday when they ambushed Iraqi positions on the east bank of Do'iradj river in the Fakkeh area. Five Iraqi counter-attacks were beaten back, 15 Iraqi prisoners were taken and a large amount of military hardware taken or destroyed, it added.

This was the second Iranian attack in the same sector of the warfront since Saturday night, and comes amid preparations for what the Iraqis expect to be a big land offensive, with about 250,000 Iranian troops reported to be massed in the south.

On Sunday Iran said 1,500 Iraqi troops were killed or wounded in an overnight raid in the Zubeidat area, 125 miles north east of Iraq's Gulf port of Basra. Iraq said Iran's push at the weekend was repelled with 2,000 Iranian casualties.

Baghdad has claimed that the weekend attack represented the start of the long-awaited offensive. Diplomats in the Iraqi capital believe it is more likely that Iran is simply limbering up and testing the Iraqi defences. It is conceivable that the Iranians will continue to mount probing attacks for an extended period, hoping to catch the Iraqis off guard, rather than hurrying into an all-out offensive.

ROH WANTS NEW ELECTION LAW

Korea assembly election planned for February

BY MAGGIE FORD IN SEOUL

MR ROH TAE WOO, President-elect of South Korea, yesterday announced that elections for the National Assembly were planned for early February and asked the opposition parties to start negotiations this week over a new election law.

The ruling party plans to change the basis of constituency party representation, with the number of proportionally chosen members reduced. The system has always resulted in a ruling party majority.

The opposition Reunification Democratic Party led by Mr Kim Young Sam, who came second in the disputed presidential poll last week, rejected the proposal for talks.

Both the RDP and the Party for Peace and Democracy led by Mr Kim Dae Jung, are struggling to understand the way election fraud, possibly involving computerised manipulation, may have been used to produce what they consider to be an inexplicable set of results. Neither party until recently has been able to command the assistance of experts because of the fear of persecution by an authoritarian government.

Both parties yesterday paid for advertisements in Korean newspapers to answer the shower of criticism they have attracted over their failure to agree on a single opposition candidate who might have been able to win the election. The two Kims promised to respect the will of the people, and to reveal their reasons for thinking the election was rigged as soon as possible.

The Government yesterday reiterated its threat to crack down on false rumours about fraud, arresting a university professor and charging nearly 200 people involved in a demonstration last week over a suspect ballot box.

Minor demonstrations over election fraud continued in several cities but there was no serious violence.

Uganda trade officials 'ordered out' of Kenya

BY VICTOR MALLET

RELATIONS between Kenya and Uganda, damaged by a series of clashes last week on their common border, worsened yesterday with each country accusing the other of harassing its diplomats.

Uganda said that four of its trade officials working in the Kenyan port of Mombasa, the main port used by Ugandan trade, had been ordered out of the country. Ugandan imports and coffee exports have already been affected by a week of border conflict which has stopped the flow of goods across the frontier. Petrol in Kampala is in short supply.

The Kenyan Foreign Ministry, meanwhile, announced that its six remaining diplomats in Kampala had been arrested and held for 19 hours by Ugandan soldiers at the weekend. Troops also ransacked the homes of four of the diplomats, according to the Kenyan statement.

It said: "These acts of detaining diplomats and ransacking their houses is clearly a serious violation of the Geneva Convention on diplomatic privileges."

Uganda, which said that four of its diplomats in Nairobi had been harassed by the Kenyans, denied the Kenyan accusations and said security forces had been posted outside the Kenyan High Commission and residences in Kampala purely to protect them.

In border skirmishes last week three Ugandan soldiers and 12 civilians were killed, the Ugandan Government says. On Friday Kenya expelled the Ugandan high commissioner and his deputy and withdrew its two senior representatives from Kampala.

Underlying the conflict are political differences between the conservative administration of the Kenyan President, Mr Daniel arap Moi, and the more radical government of his Ugandan counterpart, Mr Yoweri Museveni.

Israeli forces lack riot control skills

BY JUDITH MALTZ IN JERUSALEM

THE METHODS used by Israeli troops to control demonstrators in the past week, especially the resort to live ammunition, have drawn widespread international criticism.

Israel, unlike most other countries, has no special riot control unit. Many casualties could have been avoided, it is argued, had the army been properly equipped and trained in riot control.

Mr Yitzhak Rabin, the Defence Minister, said last week: "We are using rubber bullets. We are using tear gas. But whenever it is not sufficient, we are determined to maintain law and order."

This has already cost the lives of at least 15 Palestinians and injured more than 100 others in 13 days of acute unrest and violence, among the worst to have shaken the West Bank and Gaza Strip.

Violent demonstrations, such as those erupting in Jerusalem in recent months over the screening of films on the Sabbath, are handled by ordinary policemen. Disturbances in the occupied territories, however, remain the sole responsibility of the army.

Along with the conventional riot control equipment which the police have at their disposal – wooden clubs and tear gas – Israeli soldiers are equipped for these purposes with rubber bullets and light weapons, such as Uzi submachine guns and M-16 rifles.

Water cannons, the latest acquisition of the Jerusalem police force, have proven so effective in dispersing ultra-orthodox Haredi demonstrators that orders have been made by South Africa for the kibbutz-manufactured armoured vehicles. These cannons shoot out powerful jets of water mixed with paint and sometimes tear gas.

They have yet to be put into use, however, in the occupied territories, although the army says funds have already been allocated for their purchases – indicative of the frame of mind of policymakers.

As recent days have indicated, live bullets – in spite of the announced strict limitations on their use – have perforce become the most common method of dispersing riots in the West Bank and Gaza Strip.

According to a leaflet put out by the army's high command for distribution to all soldiers, standing orders are that warning shots should only be fired in the air to disperse a demonstration as a last resort.

With such stringent instructions, the obvious question is why have there been so many casualties? And why do Israeli soldiers keep finding themselves in life-threatening situations?

An army spokeswoman said: "In the midst of a big violent riot, it's difficult to aim." A Shin Bet agent, however, was filmed on Israel television this week aiming his Uzi submachine gun directly at Palestinians youths and opening fire.

Hussein: frustration with Washington

Hussein seeks Soviet help to end Gulf war

By Andrew Gowers, Middle East Editor

KING HUSSEIN of Jordan, his political position bolstered by the Arab summit he hosted last month, arrived in Moscow last night on an official visit designed principally to enlist more active Soviet co-operation in international efforts to end the Gulf war.

The King, with a large entourage of senior officials, will press Mr Mikhail Gorbachev, the Soviet leader, to clarify his position on a possible mandatory embargo on arms sales to Iran.

According to Western officials, Moscow has recently moved closer to accepting the need for such a ban, but it is also attempting to secure Western agreement for the creation of a naval force under the UN flag to enforce an embargo – an idea hitherto rejected by the US and Britain.

Since the Amman summit, which condemned Iran for failing to agree to a ceasefire, King Hussein has assumed the mantle of a senior Arab spokesman on this issue.

The Jordanian monarch will also discuss the debilitating stalemate in the Arab-Israel conflict, which has been thrown sharply into focus by the continuing disturbances in the Israeli-occupied West Bank and Gaza strip. Both King Hussein and the Soviet leadership have been active proponents of an international conference under UN auspices to resolve the issue.

The visit to Moscow by one of the West's most consistent Arab allies also has an important symbolic content. King Hussein has made no secret of his intense frustration at what he regards as Washington's immobilism on the Arab-Israel issue, as well as its refusal of a number of Jordanian requests for arms.

His annoyance, which came to a head last year with the revelation of covert US arms sales to Iran, has led him to look for alternative weapons suppliers, including West European nations and the Soviet Union, which is trying to sell him a number of MiG-29 advanced fighter aircraft.

Richard Gourlay on a change of economic fortunes with unwanted side-effects on already depleted foreign currency reserves

Philippines grapples with deficit in midst of plenty

THE PHILIPPINE economy is showing signs that the robust consumer-led recovery this year may turn into sustainable growth in 1988 because investment, mainly by Filipinos, has picked up sharply. Strong third-quarter growth, however, was accompanied by a sharp rise in imports which cut more than was expected from foreign currency reserves, economists say.

They are concerned that the recovery could be nipped in the bud by a balance of payments crisis as reserves, that have already fallen from $2.4bn in July to $1.9bn today, continue to tumble as imports are sucked in.

It would, however, be a crisis in the midst of plenty. A balance of more than $2.1bn of aid committed by international aid donors to the Philippines is still unused because Manila's technocrats have failed to identify and implement enough suitable projects. "The Government really has to implement projects otherwise the reserves will be run down to dangerous levels," said Mr Cesar Virata, a respected former finance and prime minister under President Ferdinand Marcos.

The culprit appears to be unexpectedly high third-quarter growth. Gross national product in the third quarter of 1987 grew 6.8 per cent bringing the first nine months increase to 5.5 per cent compared to a barely positive rate for the whole of 1986, according to National Economic Development Authority figures.

Consumption, which accounts for 73 per cent of GNP, was strong because of high copra (dried kernels of coconut) prices, elections and a referendum during which spending by officials and candidates was high. Ironically the Government's underspending by 30 per cent on fixed capital formation has probably prevented a greater increase in imports.

Evidence suggesting investment is picking up is imperfect. Both the Securities and Exchange Commission and the Board of Investments, for example, have produced third quarter figures on newly registered capital and new projects that suggest there was a sharp – perhaps as high as 70 per cent – increase in investment in the first nine months of 1987. Notably the increase came from Filipino and Filipino Chinese investors in a wide range of small, unglamorous investments and not from foreign or big-ticket projects.

Bankers say increasingly that businessmen already established in the country are having a bonanza on the back of strong consumer demand and are using earnings to make repairs and replacement investments rather than repatriating profits. The fear until recently has been that a recovery led entirely by consumer demand could not be sustained.

If these early indications of an investment recovery are to be believed, the race is on to unblock the foreign aid finance before reserves drop below their current level of about three months of imports. At the end of September, there was a trade defecit of about $600m, up from $400m in the first half of the year and the current account stood marginally at a deficit of $200m, up from a deficit of $100m.

A sharp fall in stocks of raw materials and intermediate goods, probably because of strong demand, suggests imports are likely to continue rising fast as the recovery takes hold. "It is a better quality of problem than this time last year," one foreign economist said, referring to the sluggish economy in 1986.

Once the balance of payments threat became apparent – and after prompting in early November by donors led by the World Bank – the Philippine Government moved swiftly. Mr Fiorello Estuar was appointed special adviser to the president with a brief to clear bottlenecks both in identifying projects and implementing them. The Government itself had underspent its budget by 30 per cent by the end of September because of poor project implementation.

The undrawn but committed funds are from the World Bank ($600m), Japan ($600m), the Asian Development Bank ($600m) and the US ($300m), about 10 per cent of which is in the form of grants, Mr Estuar said. None will release funds unless there is a valid project.

As too often in the Philippines, where the government sometimes appears to relish tripping from the brink of one crisis to another, the right action is finally being taken but very late in the day.

Nicaragua talks continue in spite of Contra attack

BY OUR FOREIGN STAFF

THE Nicaraguan Government and US-backed Contra rebels were due to hold a second round of peace talks yesterday, after rebels claimed a victory against the left-wing Sandinistas.

In an attempt to give military teeth to their political demands, the Contras attacked three towns in northeastern Nicaragua on Sunday and claimed to have captured them, destroying military installations.

Rebel political leader Mr Adolfo Calero said 7,000 rebels were involved in the operation which he called "the first great step towards the liberation of Nicaragua."

In Managua, Defence Ministry sources confirmed that the mining towns of Siuna, La Rosita and Bonanaza, about 150 miles north east of Managua, had been attacked, but there were no immediate details of casualties or damage.

The attacks came on the eve of a second round of indirect peace negotiations in the Dominican Republic aimed at arranging a truce in the fighting, which pits Nicaragua's Soviet-backed army against an estimated 12,000 Contras armed, trained and funded by the US.

On Sunday, the White House and the US Congress agreed to provide $8.1m in new aid to the Contras.

The talks, the result of a peace accord for ending Central America's conflicts, were expected to begin after the arrival yesterday of Nicaragua's church primate Cardinal Miguel Obando y Bravo.

He was due to meet the rebel delegation at the palace of the Archbishop of Santo Domingo and hold a separate meeting there with officials of the ruling Sandinista National Liberation Front (FSLN) and its three foreign advisers in the talks, a West German politician and two Americans.

Mr Hans-Juergen Wischnewski, a leader of West Germany's opposition Social Democratic Party, Harvard University professor Roger Fisher and lawyer Mr Paul Reichler, were also to meet face-to-face with the rebels, something Sandinista officials have refused, not wanting to give added recognition to the rebel cause.

The talks followed the announcement this week of a two-day truce for Christmas, the first mutually-agreed ceasefire in six years of fighting. But few observers expected a swift accord for ending the bloodshed which has claimed more than 40,000 Nicaraguans since 1981.

Northrop 'did not fully test missile components'

THE NORTHROP Corporation, a leading US defence contractor, failed properly to test components on guidance systems for at least 29 cruise missiles, according to a congressional study released yesterday, **AP reports from Washington.**

An Air Force review of the matter led to a criminal investigation by the Justice Department, said the General Accounting Office report.

The GAO, the investigating arm of Congress, prepared the report for the House of Representatives Armed Services Committee.

The disclosures parallel those made by another House panel, which uncovered test falsification in Northop contracts for the cruise and MX missile programmes.

The vice-chairman of Northrop, Mr Frank W. Lynch, told the Commerce and Energy subcommittee on oversight and investigation on October 28 that 30 employees of the branch that produced the improperly tested guidance components had been fired, demoted or otherwise disciplined.

Air Force officials investigating Northrop's cruise missile contract found that flight data transmitters (FDTs) "were not properly tested, some that failed tests were not properly reported or repaired, and others that were repaired were not fully tested," the GAO report said.

It said that 1,715 of the transmitters had been manufactured and that the Air Force had returned 29 of them to Northrop "for retesting at no cost to the Government."

US budget deficit 'set for sharp increase'

THE US budget deficit, after falling significantly in the 1987 financial year, will probably climb sharply in 1988, a private business research group said in a report published yesterday, Reuter reports from New York.

The Conference Board said the deficit, which was cut to $148.1bn in 1987 by "unprecedented government tax revenues and one-shot budget savings by Congress," seemed likely to jump to $186bn in fiscal 1988.

"The nation is rapidly running out of band aids, which have been used one after the other, in massive quantity, to control the deficit," said Mr Delos Smith, the board's federal budget specialist.

The group's study said the most recent cut in the deficit was attributed to an additional $30bn to $40bn in corporate and personal income taxes under the Tax Reform Act of 1986.

Other cuts came from "one-time" congressional moves, including the sale of federal assets and the postponement of military pay, farm subsidies and health care payments.

"Government revenues in 1988 will unlikely match recent levels that have been heavily distorted by the 1986 tax reform bill," Mr Smith said.

He added that government outlays would be increasingly difficult to control in the absence of a viable long-term programme to curtail spending.

"With both inflation and interest rates heading higher in 1988, government policymakers will find themselves in a new financial squeeze," Mr Smith said.

The board said its analysis emphasised that an economic slowdown next year would cut government revenues sharply, and the deficity would soar if the economy suffered a recession.

"The harsh reality is that the federal government, like the general population, is consuming too much and producing too little," Mr Smith said.

Tim Coone reports on dissatisfaction at economic planning and spiralling inflation

Ghosts of policies past haunt Argentina

HOLLOW FOOTSTEPS reverberate along the darkened and drafty corridors of the Argentine Economy Ministry building. It is late evening and the head of the nightwatchman is slumped on his chest. He snores lightly. On the fifth floor a table lamp burns in the minister's office.

Working late into the night as usual, the man sitting at the wide paper-filled desk takes off his thick, tinted lenses for a moment to rub his eyes, smarting from the strain of staring at so many closely printed figures. He looks into the gloom at the far side of the office and to his shock an indistinct but horrifying figure is standing there.

Before he has a chance to speak the shape says: "I am the ghost of inflation past ... and before the night is through, you will have the visit of two others – that of policy present and that of policy future. You are to listen to everything we tell you."

As Argentina stops for the Christmas break, Mr Juan Sourouille, the Economy Minister, is well aware that he has only a brief respite from the incessant and mounting pressure on his economic policy – a heterodox anti-inflation strategy that is looking increasingly shaky and unsustainable under a combination of mounting political opposition and disappointing economic results.

After almost three years in office, the future of the longest surviving economy minister for decades hangs in the balance.

A few figures serve to explain why. The standby loan agreement signed with the International Monetary Fund at the beginning of the year envisaged a reduction in the fiscal deficit to only 2 per cent of gross domestic product by the end of 1987. It is in fact closer to 7 per cent of GDP.

Sourouille: scapegoat

Inflation was to be reduced to 42 per cent for the year, down from 81 per cent in 1986. Instead it has jumped to 180 per cent for the year. GDP growth targetted at a minimum 4 per cent is unlikely to reach 3 per cent.

The original IMF agreement foresaw automatic disbursal of additional funds if the 4 per cent target could not be met - instead the standby loan is now running about six months behind schedule as ministers and bankers argue over the figures and the two-monthly targets.

A targetted foreign trade surplus of $2.5bn (£1.4bn) has managed only just to reach $1bn. In addition, a strategy of export-led growth has been undermined by poor world commodity prices and the prospect of a downturn in the world economy next year.

The Government's economic policy has thus proved to be its political Achilles heel - the Radical Party's defeat in elections last September has been widely blamed on Mr Sourouille's management of the economy and his support within the ruling Radical Party is at an all-time low.

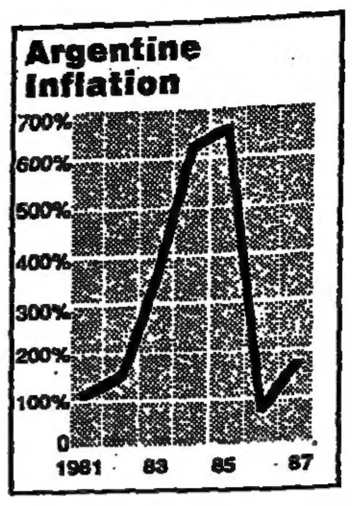
According to Mr Guillermo Feldberg, a former Central Bank director and one of the leading proponents of a neo-Keynsian alternative economic plan based on boosting domestic demand, Mr Sourouille and the economic team are now viewed as "an alien body within the party."

Mr Mario Brodersohn, the Finance Minister and right-hand man of Mr Sourouille, was booed and insulted continuously by hecklers (all of them party delegates) at a Radical Party convention last month.

Reflecting the level of dissatisfaction, the party leadership decided unanimously that the economic commission of the party should draw up an alternative proposal to the present policy. Behind this decision there is deep concern that an unpopular economic policy could lose the Radical Party the 1989 elections.

Mr Feldberg's plan is to stimulate housing construction, the automobile industry and public works projects in the provinces through self-financing credit policies and adjustments in taxation measures. Multiplier effects would stimulate demand throughout the economy.

The plan has been sharply attacked as being inflationary and unrealistic by the present economic team, but this is denied by Mr Feldberg.



"We have carefully worked out all the figures and we can demonstrate that there is a neutral effect on the fiscal deficit and the balance of payments and that the plan also "falls within the framework of the IMF agreement," he said. He claims it would create 400,000 new jobs within two years.

Another proposal circulating in the Radical Party includes a more rapid opening of the economy to foreign competition and a speeding of privatisations. Another proposes more drastic action on the foreign debt.

Mr Enrique Garcia Vasquez, the head of the party's economic commission, denies that an alternative plan is being prepared. "It is a series of proposals designed to support the existing policy. The fundamental problem is to avoid a fall in growth, to avoid the stop-go cycle in the economy, which seems to stop before it has a chance to get going, and to stimulate investment," he said.

A package of proposed tax reforms to cut the fiscal deficit in half is facing serious problems in the congress, where the Government no longer holds an absolute majority. The opposition Peronists have gutted some of the proposals and are intending to force an early debate on the 1988 budget.

According to one Peronist deputy, this will be a crucial debate as expenditure on servicing the foreign debt (expected to be nearly $4.5bn in 1988) is, at about 5 per cent of GDP, almost equivalent to the fiscal deficit.

The Peronist plan is to make significant cuts in this item - in effect a limited moratorium. Proposals in a similar vein have also come from within the Radical Party. The party's policy alternatives are expected to be presented to Mr Alfonsin in the New Year.

Negotiated agreements with the creditor banks and the IMF have underpinned Mr Sourouille's strategy since he came to office in 1985. Those underpinnings are looking decidedly shaky as the promised results have failed to materialise. Mr Sourouille is being made the scapegoat for their failure, whatever the degree of blame due to him.

"What do you want me to do?" the tired minister said to the ghost of inflation past, now joined by the ghosts of policy present and policy future.

"You must listen to the party conscience," came their reply.

Mexican exchange rate policy under the spotlight

BY DAVID GARDNER IN MEXICO CITY

THE MEXICAN peso has held steady since it was devalued eight days ago, spotlighting the studied indefinition of exchange rate policy in the anti-inflation package announced last week.

This has convinced some analysts that the Government intends to use the peso-dollar parity to slow down the rate of inflation, even at the risk of using up a substantial portion of its estimated $15bn currency reserves.

This conviction is bolstered by the fact that in the original "shock plan" version of the eventually-adopted and much watered-down anti-inflation package, officials and analysts say that the intention was to fix the parity at its post-devaluation level and set aside a $10bn war chest to defend it.

In the tripartite, so-called Solidarity Pact announced last week between government, trade unions and the private sector, the administration asserts that the exchange rate will be used simultaneously to bring down inflation and to maintain Mexican industrial competitiveness and strengthen the balance of payments.

The policy of fast depreciation of the peso, however, pursued over the past two years to restore terms of trade ravaged by the collapse in the price of oil, Mexico's main export, has been the single main cause of inflation.

In 1986, the controlled rate for the peso against the dollar, used for 80 per cent of Mexico's foreign transactions, suffered a cumulative devaluation of 148 per cent, against inflation of 106 per cent.

This year, after the devaluation last Monday, which raised the cost of dollars by 22 per cent, the cumulative devaluation of the controlled rate is 140 per cent. Inflation to the end of November was running at 144 per cent annually, but must now be in the region of 160 per cent.

This depreciation policy, none the less, means that the peso has a cushion of undervaluation of about 50 per cent against a basket of currencies from its main trading partners.

In theory, therefore, this would be an opportune moment to fix the parity, or at least hold it relatively steady for a period, to reduce inflationary pressures.

In conjunction with the three other main planks of anti-inflation policy – voluntary price and wage restraints and budget cuts – last week's poorly-presented package would then seem more coherent.

Too overt management of the exchange rate, nevertheless, risks speeding up the capital flight which resumed with a vengeance after the October Stock Market collapse and led to the current exchange rate crisis.

On the other hand, a failure clearly to explain policy risks further stoking the fires of rumour and speculation which has been a big feature of this crisis and the speed with which it has engulfed Mexico.

The Government disastrously mismanaged the Bank of Mexico's withdrawal from the "free market" for dollars on November 18. Its technical reasoning was that it did not want to waste reserves defending an exchange rate used as a safety valve for speculation and for only 20 per cent of Mexico's foreign transactions.

This did not prevent Mexicans from assuming that a full devaluation was taking place, rushing to buy dollars and to hoard goods of which they assumed, correctly, that prices would shoot up. The authorities' management of last week's "real" devaluation – of the controlled rate – showed little improvement or ability to adjust to public perceptions.

Dollar fall stresses need to liberalise trade, says Dunkel

BY WILLIAM DULLFORCE IN GENEVA

RECENT turbulence in financial markets, including the depreciation of the dollar, has given added importance to the negotiations on liberalising world trade now entering their second year, Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade, said yesterday.

The stock market plunge in October had reminded everyone that the worldwide depression of the 1930s had been triggered by governments' resorting to trade protection, Mr Dunkel said.

For politicians keen to correct exaggerated trade imbalances, the logical deduction was that frontiers should be kept open to trade. But, Mr Dunkel warned, international debt problems, overshadowed recently by stock market and currency crises, also needed to be tackled more seriously than they had been so far.

Gatt's director-general made his remarks while summing up progress during the first year of the Uruguay Round. Confounding the sceptics, negotiators had set an extremely fast pace in tabling proposals, he said.

By arranging for a smooth passage next year to the more difficult task of reconciling their divergent positions, participating countries had sent a positive signal to the business world, Mr Dunkel added.

At stock-taking exercises last week, the round's governing bodies agreed a schedule for the initial meetings next year of the 14 groups negotiating on trade in goods and a programme of four meetings in the first six months for the group handling services.

An invitation from Canada to host next year a mid-term review of progress by trade ministers, probably in Vancouver, had commanded widespread support.

A date in late November or early December is favoured by most governments. The advantage of injecting fresh political impetus to the round is generally recognised and it has been suggested that firm agreements in some areas could be ready for approval by the ministers.

The US in particular is looking for "measurable results" at the mid-term review but a few governments, including the French, have queried the value of holding such a crucial meeting at a time when in Washington, the Reagan Administration will be handing over to a new team after the presidential election.

A decision on the date and venue will be taken at an extraordinary meeting of the Trade Negotiations Committee on February 18.

It was not necessary to make the mid-term review a point of conflict, Mr Dunkel warned yesterday. It would be counter-productive for negotiations to focus on the issue.

Japan to table proposal for farm reform soon

JAPAN's promise to table a proposal for the reform of agricultural trade with General Agreement on Trade and Tariffs before the end of the year will be honoured, a Japanese official said yesterday, **William Dullforce reports.**

The text of a proposal has been cleared by both the foreign and agriculture ministries in Tokyo but the finance ministry has been too busy with budget appropriations to study it in detail, the official said. The text will not, however, be put forward before Christmas.

Japan, under strong pressure from the US and other countries to liberalise its agricultural markets, will be the last of the big trading blocs to submit its recommendations to the group negotiating farm trade reform under Gatt's Uruguay Round.

Earlier this month, Japan agreed to obey a ruling by the Gatt council that it scrap its import curbs on processed farm products in only eight of the 10 areas in which it was judged to be at fault.

Both the new government of Mr Noboru Takeshita and that of his predecessor, Mr Yasuhiro Nakasone, have run into trouble with Japan's politically powerful farmers' lobby over changes to agricultural supports. But Mr Sosuke Uno, the Foreign Minister, this month renewed Japan's pledge to table a proposal with Gatt before the end of the year.

Mr Arthur Dunkel, Gatt's director-general, will be on hand between Christmas and the New Year to receive the Japanese paper.

Canute James, recently in Miami, explains why Washington is rethinking an economic programme

Caribbean trade initiative fails to reap benefits

A CARIBBEAN trade initiative, sponsored by Washington, is to be recast after failing to bring about the benefits that both sides intended. Cynics in the region have suggested that the fault lies with the US, whose principal motive, they say, was not economic but political and aimed at Cuba or the Soviet Union.

For the governments of 22 countries, and for policy makers from the US State Department and the Department of Commerce, a series of public hearings which begin on Capitol Hill this month, and which will continue into next year, has assumed more than passing importance.

The hearings are being convened by the sub-committeee on trade of the Ways and Means Committee of the US House of Representatives. At issue are proposals to improve the Caribbean basin initiative (CBI), the Reagan Administration's trade programme for the region which allows countries designated by Washington to ship a range of products duty free to the US.

The CBI was implemented in 1984, and is set to run for 12years. It is significant that participants in the hearings include some Caribbean trade ministers. One of the problems of the CBI, say its critics, is that it was formulated with little consultation with those intended as the beneficiaries.

They point to the relative success of the Lome convention negotiated between the EC and developing countries, including some in the Caribbean, which allows preferential access for a range to products to the EC market.

"US strategy seeks political stability and self-sufficiency in the region," Mr Richard Holwill, US deputy assistant secretary of state, told a conference in Miami on trade with the Caribbean. "The United States Government has given $4bn in bilateral assistance to the region in the past three years. Assistance to the Caribbean basin countries is one of our highest priorities."

The CBI was intended to be one major pillar of this assistance. If the Caribbean countries could export more to the US without damaging domestic industry, the argument ran, they would be economically stronger, politically more stable and generally less dependent on official American aid.

But the figures show the CBI has failed to improve Caribbean earnings from the US market. In 1982, the US had a trade deficit of $1.6bn with the region. By last year this was reversed to a surplus of $105.4m. Imports from CBI beneficiaries declined from $8.8bn in 1983 to $6.1bn in 1986.

Latest figures show a continuing decline in the value of US imports from CBI beneficiaries. In the first six months of this year, US imports were valued at $3.22bn, 6.2 per cent below the corresponding period of last year, while US exports to the area during that period rose 7 per cent to $3.16bn.

FIGURES show the trade programme has failed to improve Caribbean earnings from the US market. In 1982, the US had a trade deficit of $1.6bn with the region. By last year this was reversed to a surplus of $105.4m despite a US policy of seeking "political stability and self-sufficiency in the region" and $4bn in bilateral assistance given to the Caribbean basin in the past three years. The debate is over whether cheaper commodities account for the change in trade balance.

The softening of the oil market and reduction in the US sugar import quotas have affected the region's earnings, but there is debate between Washington and the Caribbean about whether this explains the decline in the value of trade.

"There is concern that total exports are dropping, but this is the result of structural changes in the trading of petroleum products," said Mr Holwill. "In 1983, petroleum accounted for half of the trade with CBI countries. But US imports of non-traditional products between 1983 and 1986 grew by over 30 per cent as petroleum dropped from 56 per cent to 22 per cent of total share."

But Mr John Compton, Prime Minister of St Lucia, argues: "The drop in petroleum prices is not the full explanation as the trend towards reduced shipments to the US is evident in non-oil exporting countries."

Much of the early criticism concentrated on omissions from the list of products granted duty-free access. More recently, there have been regional attacks on what is perceived in the Caribbean as a tendency towards increasing protectionism eroding the limited benefits of the trade programme.

President Oscar Arias of Costa Rica says: "It is a matter of increasing concern that the overall effectiveness of the programme is being undermined by certain other provisions of US trade legislation which generate uncertainty about continued access to the US market, thereby inhibiting trade and trade-related investment."

Textiles and garments, footwear and other leather goods are listed among products ineligible for preferential treatment under the CBI. There were US fears that domestic industry could be damaged by a flood of cheap Caribbean imports.

The argument is rejected by some Caribbean leaders, such as Mr Edward Seaga, Prime Minister of Jamaica, on the grounds that the region does not have the productive capacity to damage US industry. Rather, the region argues, the additional earnings from a small part of the American market could ease financial and social pressures – such as the region's average 22 per cent unemployment.

Mr Ray Robinson, Prime Minister of Trinidad and Tobago, argued that there is little the CBI can do to reverse a leakage of foreign exchange from the region to North America and other industrial regions. "The Caribbean and the CBI cannot be blamed for the US trade deficit," he says of reports by protectionist-minded legislators to include the CBI in deficit-cutting measures.

Mr Richard Bernal, manager of economic research for the Workers' Saving and Loan Bank of Jamaica, says the trade situation has been worsened by a lack of new US investments in the region.

The structure of the CBI has inevitably given an advantage to the larger, slightly more developed countries. The small islands of the eastern Caribbean, for example, have always been more than a step behind others such as the Dominican Republic, Costa Rica and Jamaica.

Not surprisingly, of the 22 listed beneficiaries, the Dominican Republic, Costa Rica and Jamaica account for about half of US imports under the CBI.

Changes proposed by congressmen include partial duty-free access for products now ineligible for CBI treatment, and unlimited tariff exemption for articles manufactured, assembled or processed from US materials or components. They also want US sugar quotas, reduced progressively over the past four years, to be restored to levels prevailing when the CBI was implemented.

They also want the CBI's twelve-year life span to be doubled, and special tariff treatment for ethanol produced in the region and shipped to the US.

Given the parlous state of many Caribbean economies, long dependent on uncertain commodity markets, there is hope that the refashioned CBI, if it gets through the legislative maze in Washington, will make up for the failures of the first effort.

Eximbank restores Iraqi cover

BY ALAN SPENCE

THE US Export-Import Bank has agreed a return of short-term cover to Baghdad involving guarantees for up to $200m (£111m) of commercial bank and supplier credit.

Eximbank withdrew cover to Iraq last year as the country fell into arrears, partly, some suggest, due to earlier war damage to the computer facilities at the country's state-owned commercial bank, Rafidain Bank.

Various Iraqi ministries are allocating the $200m, with the bulk of the Eximbank guaranteed credits likely to fall in a 30 to 90-day period. When Iraq's payment record on these credits is assessed, it is thought Eximbank may consider the preparation of medium-term cover to back US capital goods exports to Baghdad.

Eximbank officials say the agency agreed in principle to return short-term cover to Iraq in May, after the country had cleared arrears.

Moreover, the bank continues to be impressed by Iraqi repayments of US commodity credit corporation advances for food imports of $800m-$1bn annually. "They have never missed a dime," one official said.

However, new cover could not be effectively introduced until Eximbank received an assurance of guarantees for credits from the Iraqi Government. This has been received.

Eximbank's action moves the agency's policy on Iraq towards that of the Export Credits Guarantee Department, which is covering for short-term risk and is continuing to take a favourable view of medium-term risk.

Following previous ECGD-backed lines involving Morgan Grenfell and the Midland, ECGD is preparing to back another £175m line for Baghdad next year.

Of this, £100m will comprise a general line and the remainder will cover pharmaceuticals. Baghdad has yet to appoint an arranging bank for the finance.

It is thought that Eximbank's move reflects a view among the agency's risk analysts that it will not suffer a big defeat in the Gulf war with Iran.

Moreover, this seems to be borne out by recent changes in Eximbank risk rating for Saudi Arabia, the UAE and Kuwait. Despite the military turmoil in the region, it is understood that US exporters are paying Eximbank exposure fees commensurate with an A category status for these states, compared with B status fees which prevailed until last month.

Exporters to Iraq will probably be in E status fees, plus a surcharge – E is the last category for which Eximbank cover still exists.

Swissair to buy six more MD-11s

By Michael Donne, Aerospace Correspondent

SWISSAIR, the Swiss flag airline, has approved the purchase of six more McDonnell-Douglas MD-11 long-range three-engined jet airliners, and one more MD-81 twin-jet, worth a total of more than $600m.

This brings to 12 the total number of MD-11s on firm order for Swissair, with another six MD-11s still on option. The airline will use the MD-11s to replace the large fleet of McDonnell-Douglas DC-10s it operates.

The Swissair deal brings total firm orders (excluding options) for MD-11s so far this year to 53, worth about $5.3bn, with options for an equal number of aircraft.

The US manufacturer says that nearly 75 per cent of the engineering drawings for the MD-11 have been released to the production shops.

Chevron, Texaco in oil search deals with India

BY D.P. KUMAR IN NEW DELHI

THE INDIAN Government has signed three contracts with a consortium of Chevron and Texaco of the US for offshore oil exploration in the Krishna-Godavari and Palar basins.

Chevron-Texaco, along with six other companies had bid for offshore blocks – after the Government had offered 27 offshore blocks in March 1986 for exploration by foreign companies.

The contract covering three blocks provides that the entire exploration risk will be borne by the consortium.

If no oil is discovered, the companies can terminate the contract. The oil companies are also required to share crude oil with the Government after they have recovered their costs. This sharing will be on a sliding scale.

The companies will also share with the Government a higher proportion of their profits as the economics of their project improves.

● **Hilary Barnes reports from Copenhagen:** A development plan for two small gas fields, Lulu and Lulu West, in the Danish sector of the North Sea was announced by Danish Underground Consortium (DUC).

The fields, which will be renamed Harald, have recoverable reserves of about 25bn-30bn cubic metres. Production is expected in the mid-1990s, but the consortium, comprising A.P. Moller, Texaco and Shell, said this would depend on market demand.

The development will consist of a production platform with 18 wells, which will be connected to a processing and residence platform.

The gas will be transported by an 50-mile pipeline to the Tyra Field and from there it will be piped ashore in the existing network. Condensates will be piped to a treatment plant on the Gorm Field 94 miles away.

Liberal leaders agree to reconsider Alliance title

BY PETER RIDDELL, POLITICAL EDITOR

LIBERAL leaders yesterday attempted to rally rank-and-file support for the proposed merger with the Social Democratic Party by promising to reconsider the suggested short title of the Alliance.

This follows criticism of the merger terms, especially the word Alliance, at a meeting of the Liberal Party Council in Northampton last Saturday.

On the SDP side, Mr John Grant, a former SDP and Labour MP, who quit the negotiations before they ended, criticised the Liberal negotiators as "fractious and feebly-led."

He urged outright opposition to the merger terms, both at an SDP conference in January and at a later ballot of members.

A further complication appeared yesterday with discussion by the Liberal Party's national executive of the suggestion that the package should be approved by at least 75 per cent of those voting – rather than a simple majority – in February's ballot of all party members.

In a joint statement yesterday Mr. Adrian Slade, the Liberal president, and the Mr Tim Clement-Jones, the party chairman, emphasised that the Liberal negotiators were now engaged in a consultation process which would be "taking full account of all the views expressed by Liberals throughout that process."

Liberal leaders believe that, for all the current vocal expression of reservations on particular points, and over the title, the party assembly in late January will accept the overall package provided members are sure the negotiators have been seen to do their best.

Nevertheless, SDP and Liberal leaders fear that, even if the package is approved, the new party will be launched against such a background of bickering and doubts as to deter potential supporters.

Two stockbroking firms to merge

BY CLIVE WOLMAN

TWO OF London's oldest stockbroking firms, Laurence Prust and Foster & Braithwaite, yesterday agreed to merge.

The deal is part of an expected increase in the consolidation of the securities industry in the wake of the stock market crash of October.

Laurence Prust, 85 per cent *owned by Credit Commercial de* France, is acquiring Foster & Braithwaite by offering its partners a mixture of cash and shares.

Mr Graham Ross Russell, Laurence Prust managing director, said the rationale behind the move was to give his firm access to Foster & Braithwaite's private-investor clientele while allowing Foster & Braithwaite to use and disseminate his firm's research. The two firms had discussed merger for the past six months.

Last year Laurence Prust's private-client business had been spun off into a separate firm at private-client partners' request, in preliminaries to Big Bang reforms last year. The merger will allow Laurence Prust, which concentrates on research for institutional investors and corporate finance, to return to that market.

Foster & Braithwaite, based in London, advises 7,500 private clients on assets worth about £500m.

The firm, the history of which, like that of Laurence Prust, dates to the 18th century, will be required to end its policy of only admitting members of the family to the partnership.

Council abandons Shell boycott

Financial Times Reporter

LEWISHAM COUNCIL in London yesterday abandoned its proposed boycott of Shell UK's services after the High Court ruled that the council had acted unlawfully by trying to force the company to withdraw investment from South Africa.

The council promised not to implement its boycott decision, taken in March this year, after two senior judges granted Shell UK a declaration that such a move was outside a council's power.

Lord Justice Neill, sitting with Mr Justice Taylor, ruled that the council was entitled to decide that it was in the interests of good race relations to cease trading with Shell UK because of its links with apartheid.

But its additional aim to change Shell's policy toward South Africa was "extraneous and impermissible" and had the effect of vitiating the decision as a whole, said the judge.

***In what is being seen as a* test case over local-authority action against apartheid, Shell UK said it had been unfairly "singled out" by the council.**

Surge in business helps Post Office double pre-tax profits

BY TERRY DODSWORTH

THE POST Office more than doubled its pre-tax profits in the first half of this year as a result of price increases and a surge in the traffic of letters.

In the six months to September, the company's letters business, counter services and Girobank activities made profits of £46m, against £21m in the same period last year, while turnover rose to £1.79bn from £1.62bn. Net profits, after payment of tax and interest on long-term loans, rose to £24m from £8m.

The Post Office emphasised yesterday, however, that the year as a whole was unlikely to show much improvement in profits for the full year on the performance in the last financial year to March, when it made £170m pre-tax.

In the first six months of last year, it said, profits had been kept artificially low by price restraint and the 1p rebate on the second-class stamp - factors that pushed the letters service into net losses of £4m. In the second half, the company experienced a surge in profitability caused by an unprecedented increase in volume and a letters price increase in October 1986.

The company has given a commitment not to increase prices during the current financial year, and although the number of letters handled is still rising at 6.5 per cent annually, it is expected that profits should be "broadly similar" to the outcome of the previous 12 months.

The Post Office is to spend £18m during the course of this financial year, to end March, on improvements to the letter service, including more second deliveries a day.

The detailed half-year figures show that the letters service made pre-tax profits of £25m against £2m in the previous year.

Standard Chartered report delayed

BY CLIVE WOLMAN

PUBLICATION of the Bank of England inspectors' report into Standard Chartered's conduct of *its defence last year* against a hostile takeover bid from Lloyds Bank, has been postponed to allow the bank's management to comment on its findings.

The Bank of England, which has not yet seen any of the report's conclusions, does not expect to receive the report until mid-January at the earliest. It will then take another week or *so to decide which sections of* the report it is prepared to publish without breaching the principle of confidentiality between a bank and its customers.

The report will come at a sensitive time. Stockbroking analysts believe that Standard Chartered will shortly be forced to raise capital to compensate for the effects of making further bad debt provisions for its substantial portfolio of Third World sovereign loans.

Early in November, Mr Michael McWilliam, Standard Chartered's managing director, said he expected the report to be published by the end of that month. He said he had been given no indication of its contents at that stage.

The inspectors were appointed in February at the request of Standard Chartered in response to speculation that the bank's management may have come close to breaching the Companies Act. That was a result of its lending to several of the "white squires" who bought shares in the bank during the final stages of the takeover battle to block the bid.

The focus of the inspectors' attention has been on Standard Chartered's loans to Tan Sri Khoo Teck Puat, the Malaysian financier who was appointed a *director of Standard Chartered* after the bid until his own bank - the National Bank of Brunei - was closed down by the Brunei authorities in November of last year.

Biggest trawler for 12 years launched

By Kevin Brown, Transport Correspondent

THE FIRST foreign-going trawler to be built in the UK since the 1975 "Cod War" was launched yesterday at Cochrane's Shipyard, in Selby, North Yorkshire.

The 128-feet Thornella is the first of two open-stern trawlers being built by Cochrane's for J. Marr (Fishing) of Hull, a subsidiary of the Australian conglomerate Howard Smith.

The ships, worth a total of £5m, will fish for cod, haddock and coley off Rockall and north of the Shetland Islands in winter, and off northern Norway in summer.

The launch marks the first reinvestment in middle or deep-water trawlers by UK owners since British fishing rights off Iceland were curtailed.

Mr Charles Marr, a director of J. Marr, said the company would monitor the performance of the trawlers for two years before deciding whether to replace the rest of its fleet of six ships.

Mr Marr said other trawler companies would also be forced to decide soon whether to replace existing ships, and further orders might be placed shortly.

The fleet is unlikely to expand, however, because of the loss of fishing grounds and strict enforcement of EC quotas.

Highland Express has debts of £3m

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

HIGHLAND EXPRESS, the low fares transatlantic airline that went into liquidation on December 11, has debts to outside creditors of almost £3m, a creditors' meeting was told yesterday.

A consortium has been formed in the hope of reviving the airline in some form in the new year. Sir Ian MacGregor, the former head of British Coal who chaired Highland Express, has agreed to lead it.

The joint liquidators, Mr Robin Wilson and Mr Christopher Morris of accountants Touche Ross, told creditors yesterday that the airline had a total deficiency of £8.39m. That includes £5.4m in capital owed to the parent company, Highland Express plc.

The airline owes £2.4m to creditors such as the British Airports Authority, the Civil Aviation Authority and Sabena, the Belgian airline, which has been overhauling Highland Express's only aircraft, a leased Boeing 747. Some £400,000 is owed to people who have paid for tickets to fly with Highland Express.

Mr Randolph Fields, the US lawyer, who launched the airline this year, had hoped that it could fly again before Christmas.

That plan has been abandoned. But the consortium, which includes Mr Fields and Mr Gregory Copley, an Australian businessman who heads Ailsa-Ferguson Shipbuilders at Troon, Ayrshire, is trying to raise £5m in fresh finance for a relaunch next year.

Mr Robin Wilson, one of the liquidators, said that he could wait until well into next month for the consortium to approach him with a proposal to acquire some of the airline's assets. It would be in the creditors' interests for such a rescue bid to succeed, he said.

The success of any rescue attempt is likely to depend on what arrangement can be made with Citicorp Industrial Credit, the leasing company that owns the aircraft, he said. Highland Express has said that unexpected defects with the aircraft seriously delayed the launch of the airline and caused heavy initial losses.

Sir Ian MacGregor, for a few days chief executive of the airline before it went into liquidation, said at the weekend that he was becoming a non-executive chairman because staff had asked him to. He pointed out that he had fallen well short of raising the £3m that had been needed to keep the airline flying, and that the sum required was now £5m.

Caterpillar launches self-guided transporter

BY NICK GARNETT

GEC of the UK and Caterpillar, the US earth-moving machinery maker, announced the commercial launch yesterday of what is claimed to be one of the first systems of automated guided vehicles that does not use wire guidance.

Called self-guided vehicles, the shopfloor transporters use dead reckoning for basic guidance with laser scanning to check their exact location as they move around the factory or warehouse.

The SGV has a mini-computer on board which talks to a central computer. The movement of the SGV is logged on a factory "road map" displayed on a terminal screen.

The world-wide source for the vehicles will be the Caterpillar production plant at Leicester. The vehicles are based on a Caterpillar lift-truck chassis.

The vehicles have been under test at a Caterpillar plant in the US and at a small factory in the Midlands.

The two companies said the system would be the first automated handling system for rent to users. That guaranteed the standard of maintenance back-up and made it suitable for many small businesses, the companies added.

State earns more abroad

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

NATIONALISED INDUSTRIES' overseas earnings rose by 11 per cent, to just under £2bn, in the year to June, the seventh successive year in which they have boosted their foreign currency receipts.

The Nationalised Industries' Overseas group said the bulk of the earnings came from direct exports by companies ranging from British Steel to the electricity industry.

However, the corporations also earned foreign currency from consultancy contracts.

HIGH COURT BACKS UNRESTRICTED QUOTATION OF SPYCATCHER

Ruling puts press freedom first

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

NEWSPAPERS should be free to publish allegations made by Mr Peter Wright, a former officer of MI5, the domestic security service, in his best-selling memoirs, Spycatcher, a High Court judge ruled yesterday.

Mr Justice Scott said that factors in favour of press freedom were "overwhelming" now that Spycatcher had been published worldwide.

Any damage that Mr Wright's allegations might cause to Britain's national security must already have been inflicted, the judge said.

He rejected applications by Sir Patrick Mayhew, QC, the Attorney-General, for permanent injunctions against three newspapers - the Guardian, Observer and Sunday Times – which have been prevented by temporary injunctions from publishing Mr Wright's allegations.

The Government is to appeal against the ruling and the Court of Appeal has proposed January 18 for the hearing of the appeal. Mr Justice Scott extended the temporary injunctions until that date.

It was the second defeat in 24 hours for the Government in its court battles to suppress Spycatcher. Earlier yesterday the New Zealand Court of Appeal had refused an injunction to stop a Wellington newspaper publishing extracts from the book.

Referring to an allegation in Spycatcher that MI5 officers had plotted to destabilise the government of former prime minister, Mr Harold Wilson, Mr Justice Scott said that it would be objectionable if such an allegation could not be placed before the citizens of the UK when it was known to people in virtually every other country in the world.

He said that the absolute protection of the security service for which Sir Robert Armstrong, the Cabinet Secretary, had argued "could not be achieved this side of the Iron Curtain."

The judge also rejected the Government's argument that it should not be exposed to pressure and embarrassment by the reporting of Mr Wright's allegations.

The purpose of the duty of confidentiality owed by members of the security service was to enable MI5 to operate efficiently, not to save the government of the day from pressure and embarrassment, the judge said.

Mr Peter Preston, editor of The Guardian, said he was "absolutely delighted" with the result.

"It is good to have a proper, well thought-out and carefully documented judgment showing that people's right to be informed in a democracy does matter and has weight with the judiciary," he said.

Mr Donald Trelford, editor of The Observer, said the judge's "overwhelming concern" for press freedom was a long-overdue statement from the judiciary.

Mr Antony Whitaker, The Sunday Times legal adviser, said the judgment vindicated the paper's belief that the British public should be able to read about Mr Wright's allegations.

The Government's decision to appeal was criticised by Labour Party leaders, including Mr Roy Hattersley, the Shadow Home Secretary. "It is now simply a bullying tactic to make life as difficult as possible for newspapers who did something which the Government does not approve of," he said.

"The Government will continue to look foolish until they finally accept that they should end what is now becoming the Spycatcher farce. But instead they are going on with this absurd case solely to save Mrs Thatcher's face," Mr Hattersley said.

Judgement details, Page 8

British Gas takes control of Bow Valley

BY DAVID WALLER

BRITISH Gas is investing £349m in Bow Valley Industries, the diversified Canadian energy and services group, giving the British utility effective control of one of the largest oil and gas exploration companies in Canada.

The move fulfils a long-held ambition on the part of the British company, which intends to diversify into oil exploration and production. It first announced its intention to acquire control of the company, based in Calgary, Alberta, in August this year but the deal was blocked in October by Investment Canada, a Government body which supervises foreign investment in Canadian industry.

The transaction has been restructured so that it no longer requires this body's approval. British Gas will acquire management control of the Canadian company, with the right to nominate a majority of the directors, but it will not have voting control.

British Gas will make a tender offer for just under a third of the Canadian company's voting shares at C$20 a share, a total of C$320m, and will inject a further C$517m into the company in return for non-voting convertible shares.

As a result, British Gas will own 51 per cent of Bow Valley's total equity and will be entitled to 51 per cent of the company's dividend income. British Gas has introduced certain safeguards to preserve its control in the event of a hostile takeover for Bow

Investment Canada's approval is required only if a foreign company acquires more than a third of the voting shares in a Canadian energy company. But the regulatory body must be consulted if British Gas attempts to put its safeguards into effect.

Under the terms of the latest agreement, British Gas can effect the conversion of the convertible shares into voting shares, thus giving it a voting majority. This can only happen when a proposition is put to Bow shareholders which does not have the support of the Bow Board. In practice, this provision would apply in the event of a hostile takeover bid.

However Investment Canada would have to be consulted should this happen, and British Gas has not been given any assurance that the regulatory body would approve of the conversion.

Mr Chris Brierley, British Gas director in charge of new businesses, said that this led to the "theoretical possibility" that the British company could lose control over Bow Valley

A spokesman for Investment Canada in Toronto, said only that British Gas was aware that the conversion of the non-voting shares into voting shares would require its approval.

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Treasury faces MPs' query on priorities

By Philip Stephens, Economics Correspondent

AN ALL-PARTY committee of members of parliament yesterday joined the debate over the funding of the health service by criticising the Government for failing to establish adequate mechanisms to determine public spending priorities.

In a report on last month's Autumn Statement on the economy, the House of Commons Treasury and Civil Service Committee said that in its questioning of Mr Nigel Lawson, the Chancellor of the Exchequer, it had found no evidence of any improvement in the way the Government fixes spending priorities.

The report highlights incidents where "well-merited" pay awards were granted to employees in, for example, the health service and the Treasury then refused to meet the full cost. This meant that health services had to be cut back elsewhere.

With a better, centrally-controlled, system to establish priorities, however, additional outlays on one service could be met by economies in less vital services.

The committee was also critical of the Treasury's presentation of detailed public spending figures in cash terms.

It cited the example of the main table in the Autumn Statement showing cash increases in the totals for 20 out of 23 departments for the next financial year.

If the Treasury's own forecast of likely inflation was included in the calculation, however, no fewer that 10 departments were projected to suffer a cut in their allocations.

Many of the remaining departments would receive increases of less than the forecast growth in the economy, with spending on health projected to rise by just 1.2 per cent.

Treasury and Civil Service Committee, First report, HMSO, £6.80.

Eurocity launches attack on quality of air traffic control

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

A BITTER attack on the "significant deterioration" in the quality of air traffic control services in UK civil aviation over the past year was launched yesterday by Mr Michael Bishop, chairman of the independent airline Eurocity Express.

However, he also attacked a rival airline for provoking a flight ban by its complaints about the problem.

Eurocity Express flights to Paris from the new London City Airport were suspended on Friday by the Civil Aviation Authority following complaints by Brymon Airways, of inadequate air traffic control on the route. Brymon's flights were also suspended.

A top-level inquiry into the Brymon complaints and the overall air traffic control situation at the airport began yesterday. The team of investigators is headed by Mr Brian Trubshaw, the former Concorde test pilot who is now an independent aviation consultant, assisted by CAA and former national air traffic officials. Their report is expected within the next few weeks.

Mr Bishop's attack on the quality of air traffic control services follows mounting criticism over recent months from air traffic control officers.

They have complained of inadequate equipment, long hours and difficulties in getting their grievances heard and understood. The CAA on the other hand has argued that it is spending substantial sums on improving the quality of equipment in a period of rapidly increasing air traffic.

Mr Bishop said the CAA decision to suspend flights to Paris was "the inevitable and proper response to the style of threat and confrontation with the CAA deemed appropriate by another operator (Brymon) to secure a further improvement in air traffic control services for this route."

Eurocity Express had been satisfied with the air traffic control situation on the route "and remains of the opinion that the flight routeings to Paris established since the operation of the new airport meet the level of operational integrity demanded both by the airline and the CAA," Mr Bishop said.

Nonetheless, the situation underlined a problem "which is not unique to operations from this airport," he said.

"The Airlines of Britain Group, of which Eurocity Express is one of four operating units, has observed a significant deterioration in the air traffic control services it has received throughout its UK network during 1987.

"The continuing unsatisfactory industrial relations which appear to exist between the management of the National Air Traffic Control services and their staff can now be seen, in a practical way, to be having a damaging effect on their customers, the airlines.

"While the airlines are successfully meeting the challenge of providing for the increase in airline traffic, the parallel commitment of the National Air Traffic Services both in terms of its management and equipment, which is essential in such an inter-dependent industry, is not being fulfilled.

"Although this episode is inevitably damaging in the short term, coming in the first weeks of a new operation, the Airlines of Britain Group remains wholly committed to contributing to a successful future for the London City Airport and the introduction by both the air traffic control and the airlines of new facilities and equipment to generate customers' confidence and success in the years ahead."

Brymon Airways declined to comment on Mr Bishop's statement. It said it had been asked to attend a meeting of the Inquiry into the Stolport affair with the CAA in London today, and would do so.

Nick Garnett looks at changing ownership trends in manufacturing

The big rejig in heavy engineering

THE SALE announced this month of Rose Bearings, the ball-bearing division of APV, to Minebea of Japan exemplifies a trend which is reshaping large slices of UK mechanical engineering.

During the past year, scores of companies have changed hands in an apparently unstoppable reshuffle. It has changed the face of a number of the most important sectors making up Britain's heavy manufacturing.

The same theme has been chronicled in a range of other industries including electronics, white goods, food production and sports cars.

This year's events have underlined the depth and speed with which it has also been happening in the much more fragmented world of mechanical engineering.

In some sectors, the changes are being secured through the sale of a number of companies. In bearings, for example, three companies have been sold in the past few months, including the two largest indigenously owned businesses - the bearings operations of RHP and Cooper Roller Bearings in King's Lynn.

More than half a dozen British-based machine tool manufacturing operations have changed hands during the past 12 months or so, including some of the biggest.

At the same time, the restructuring of the earth-moving machinery sector, which gathered pace last year, has continued in 1987. This has included the absorption of dragline-maker Ransomes and Rapier by Stothert and Pitt; the purchase of Parker, the stone-crushing equipment and conveyor maker, by the Brown Group; and the likely sale soon of the Hymac excavator-making business by its owner, BM.

In other sectors, a fundamental alteration in ownership structure has been brought about by a big one-off sale of a dominant player.

For power generation, this was the purchase of Babcock by FKI. In pumps, the acquisition by Glasgow-based Weir of Mather and Platt, part of the Australian Wormald group, involved two of the biggest UK pump-making operations.

The same trend emerged in food-making equipment with the merger of APV with Baker Perkins. In farm machinery, one of the UK's largest operations, that run by Ransomes, Sims and Jefferies was sold to Electrolux, of Sweden.

In some peripheral sectors of mechanical engineering, similar changes also appear to be under way. For example, two air-conditioning equipment makers, Wright and Stone, have changed hands.

An apparently unstoppable reshuffle... chronicled in industries including white goods, food production and sports cars

The trend should not be exaggerated. In sectors often comprising scores of companies, most operations have demonstrated stable ownership. Some of the purchases, too, are much smaller than the acquisitions British companies have made in the US this year. Nevertheless, this year's changes represent a shake-up not seen since the fall-out during the recession at the turn of the decade.

Four reasons seem to account for much of what has been happening in mechanical engineering, over and above the general acquisition boom which has characterised British industry during the past few years.

The first and obvious one is that some companies have wanted to extract themselves from sectors while other companies are digging deeper into those sectors or buying-in for the first time.

Almost all the acquisitions and mergers were agreed and were not the result of hostile takeovers. In some cases, large groups have sold businesses to smaller organisations specialising in that line of product.

Both TI and Staveley consciously took a decision to get out of machine tools this year, selling to companies committed to them. Last year, Northern Engineering Industries abandoned earth-moving machinery with the sale of three construction equipment businesses to BM, which sees that type of machinery as a core activity for itself.

This kind of change has also affected some sectors supplying indirectly to mechanical engineering. In the scrap industry, the 600 Group got out of the business this year with the sale of Cohens, the biggest single scrap operation in the UK, to Sheppards, a specialist scrap company.

A second reason has been the desire to purchase a company in order to extract financial returns through rationalisation or to improve a global marketing position by broadening a product range. FKI's purchase of Babcock falls partly into the former category, while the APV-Baker Perkins merger and the acquisition of Mather by Weir fall into the latter.

A third factor has been the willingness of foreign companies to purchase businesses in the UK. This has included the takeover by Beyeler of Switzerland of 600's Edwards sheet metal forming machinery company, and the sale of W. E. Sykes, another 600 company, to the Irish Silver Mines Group.

Apart from the Electrolux purchase of Ransomes, Sims and Jefferies, Kalmar of Sweden bought lift-truck maker Coventry Climax 12 months ago, and Minebea, a Japanese bearing company, acquired Rose Bearings. In the metal supply industry, Bruehl Eisenwerk, of West Germany, has just purchased Rover's Beans foundry in the Midlands.

The fourth feature of these changes has been a spate of management buy-ins and buy-outs and purchases by investor groups in which management has a significant stake.

That has been a particular factor in the machine tool industry. The UK operations of three US companies - Bridgeport, Ex-Cell-O and DeVlieg - have been caught up in management or investor buy-outs mounted largely outside the UK.

Investment money and a management stake was also a feature of the sale of TI Machine Tools to TMG Engineering. The RHP bearings business sale also involved a management buy-in.

Although all those changes are significant, the shape of mechanical engineering would have been even further redrawn if more of the hostile bids that failed last year had proved successful.

Among them was the attempt by Valuedale to take over Simon Engineering and by Tozer, Kemsley and Millbourn to buy Molins, the cigarette machinery maker.

Hawker Siddeley wins Clyde Trident base power contract

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

HAWKER SIDDELEY Power Engineering yesterday won a £5.3m contract to construct a large diesel generating station for the base for Trident submarines being built on the Clyde.

The contract is part of a £600m construction programme being carried out by the Government's Property Services Agency for the Ministry of Defence, making it one of the largest civil engineering projects in progress in Scotland. The base is located at Coulport on Loch Long and at Faslane on Gare Loch, both north-west of Glasgow.

The contract, won by Hawker Siddeley Power Engineering of Loughborough, is for the Royal Naval Armament Depot at Coulport. It involves building a power station that will incorporate diesel generating plant supplied by John Brown Engineering of Clydebank as sub-contractors.

The order, added to one for the Faslane base, brings the total value of orders won by John Brown Engineering to pounds 16m.

Work on the submarine base began in 1985 for completion by 1992. Construction has begun under a £36m contract to build a jetty access road and support area.

British offshore construction yards and shipyards have been asked to tender for the construction of a covered floating jetty, valued at about £50m, for Coulport.

London house price rises 'ease'

By Andrew Taylor

LONDON HOUSE prices' rapid growth rate is likey to slow with the market cooling in months rather than years, according to a report issued yesterday by Nationwide Anglia building society.

The third-largest society said house-price rises in the capital were pricing first-time buyers out of the market.

It said: "It is becoming increasingly clear that price rises like these cannot continue without forcing first-time buyers out of the market altogether.

"It is therefore likely that the London market will cool and we predict this will happen within months rather than years."

Nationwide said the proportion of first-time buyers buying homes in London in the year to end-September fell to 41 per cent, compared with a 55 per cent norm in recent years.

In fashionable outer London boroughs where prices were higher, the proportion of loans made to first-time buyers fell, to less than 25 per cent in Havering, Kingston and Richmond.

Nationwide said: "The ratio of house price to borrowers' income has continued to increase in the third quarter of 1987 and an average first-time buyer had to buy a house which was 20 per cent dearer to relative income than in 1986."

The average house price paid by borrowers in London was £67,810, about 27 per cent more than a year ago and 46 per cent higher than the average national house price.

P & O updates Irish services

By Kevin Brown, Transport Correspondent

PENINSULAR AND Oriental Steam Navigation has announced plans to spend £11m on improvements to its roll-on, roll-off freight ferry services, to Dublin and Larne.

The announcement follows the withdrawal of B+I Line from the Dublin to Fleetwood route as part of an £11m restructuring by the Irish Government.

P & O said its freight service, operated by its Pandoro subsidiary, would concentrate UK-to-Dublin services on Liverpool, but services to Northern Ireland would be switched to Fleetwood.

As part of the rationalisation of routes, Pandoro has agreed to buy the B+I fleet of 1,800 trailers. That will give Pandoro nearly 4,000 trailers in a market in which door-to-door services are becoming increasingly important.

P & O's investment proposals include lengthening the 90-trailer ferry Buffalo, one of the four ships on the Dublin route, to accommodate up to 45 drivers.

Call for cash to reclaim derelict land in Wales

BY ANTHONY MORETON, WELSH CORRESPONDENT

UNLESS a massive increase is made in the money available for reclamation of derelict land in Wales, the Principality will carry the industrial scars of the 19th century into the 21st century, according to a report.

Mr Ewart Parkinson, former chief planner for South Glamorgan County Council, who prepared the report for the Coalfield Communities Campaign, suggests that the amount set aside by the Government through its agencies, such as the Welsh Development Agency, should be increased immediately to £25m a year. This year, £16m is being spent, a big rise on 1986.

Land is being cleared at the rate of around 600 acres a year in Wales. Mr Parkinson claims this only allows for the clearance of present sites and makes no inroad into previous dereliction.

"Assuming no new dereliction and that this rate was continued it will be many decades before derelict land is cleared from Wales," he reports. "People in Wales are therefore in the sad situation whereby they are failing in the 20th century to clear the industrial mess created by the 19th century.

"Unless Wales has an immediate and massive increase in the funding allocated to land reclamation we shall carry the scars of the 19th century well into the 21st century, irrespective of what new dereliction is created."

The Coalfield Communities Campaign is an organisation representing 75 local authorities in England, Wales and Scotland that have heavy concentrations of coal mining.

Mr Parkinson points out that Wales has been lagging behind both England and Scotland in removing the scars of industrialisation.

In England spending has jumped from £10m in 1977 to £80m this year and in Scotland the total has doubled to £30m in the same period. By comparison, Wales has seen its spending rise from £8m to £16m, though the scale of its problem is very little different from Scotland's.

Ulster to host business conference

Financial Times Reporter

NORTHERN IRELAND is to host an important international business conference next year which is expected to attract about 400 delegates from all over Europe.

The decision to hold an event in the province follows the success of the Local Enterprise Development Units Convention in Portugal this year.

Mr Peter Viggers, the Northern Ireland Industry Minister, said the conference, next September, would bring together representatives from the European business community.

They would be able to assess Northern Ireland's approach to the stimulation of economic growth and the pioneering of Enterprise Development programmes.

Key aims of the conference will be to encourage enterprise throughout Europe and to update delegates on the latest small business developments.

Mr Viggers said: "I think it is a tremendous opportunity for us in Northern Ireland to make our mark on the European scene and to develop the opportunity to sell our expertise more widely."

UK NEWS

Court rules against shops over Sunday DIY trading

FINANCIAL TIMES REPORTER

DO-IT-YOURSELF stores cannot legally sell items such as garden accessories, wood and wallpaper on Sundays, the High Court in London ruled yesterday.

Lord Justice Watkins and Mr Justice Mann decided cases before them against retailers Texas Homecare, Wickes Building Supplies, RMC Homecare (South), W. H. Smith Do-It-All, and Paul Madeley Ltd – the company formed by the former Leeds footballer.

In the case of the four nationwide concerns, the judges sent cases back to local magistrates with directions to convict for illegal Sunday trading. In Paul Madeley's case, they dismissed the company's appeal against conviction.

Mr Justice Mann, giving the court's reserved judgment, said magistrates in many parts of the country had been coming to "perverse decisions" that a wide range of articles could be construed as motor accessories, which were allowed to be sold on Sundays under the 1950 Shops Act.

The stores before the court yesterday had, between them, sold the following items: abrasive pads, brush cleaner, ceramic tiles, creosote, curtain railing, emulsion paint, electrical cable and electrical boxes, fluorescent tubes, gloss paint, laminated wood, paint brushes, plaster board, plumbing fittings, radiators and fittings, roofing felt, timber, tiles, wallpaper, watering cans, white spirit and varnish.

Mr Justice Mann said the astonishing argument put forward was that these were "motor accessories" because they could be used to repair motorised caravans.

The appeal judge said: "A woman's stocking can be used as a motor accessory as it can serve as a fan belt, but no one using language with its ordinary and natural meaning would regard a hosiery counter as selling motor accessories.

"Justices must ask themselves whether, in the ordinary and natural use of language, an item is capable of being described as a motor supply or accessory."

About some items they might have doubt – such as a chamois leather or torch – and in those cases only could they give the benefit of the doubt to the stores, he said.

In most cases, magistrates needed "only a knowledge of our language" to decide the issue.

There was no notice of appeal in court against yesterday's decision.

The case involved Texas Homecare stores in Rochford, Sandwell, Ipswich and Luton; Wickes Building Supplies in Rotherham, RMC Homecare in Salisbury and W. H. Smith Do-It-All in Tameside. Leeds City Council had contested Paul Madeley's unsuccessful appeal.

Slowdown in economy signalled by index

By Simon Holberton

THE SHARE-PRICE collapse last October might lead to a slowdown in the economy in a year's time, official, longer-term indicators of the business cycle suggest.

The Central Statistical Office's longer leading index, aiming to inform on the economy's behaviour a year ahead, fell 1.3 per cent last month from its October level. However, the office, issuing the figures yesterday, said last month's fall was because of the effect of October's share-price declines. It added that only two of the index's five components were related to information current in November.

Over recent years the index has not been an accurate forecaster: last year it forecast a downturn for this year; in fact, the economic growth rate has been the highest for nearly 15 years.

The index was 102.6 last month (1980=100), compared with 105.4 in October and 101.5 in November last year.

The office's other indicators – the shorter leading indicator, the coincident and lagging indicators – were published for October.

Two were higher than the September levels; one was unchanged. The office said they were consistent with an economy growing strongly.

Welsh home for TSB offshoot

BY ANTHONY MORETON, WELSH CORRESPONDENT

THE Trustee Savings Bank confirmed yesterday that its TSB Trust Company subsidiary is to open a main office in Newport, South Wales, close to the M4 motorway.

The bank has received government selective assistance of £5m towards the £50m cost of setting up the operation, which at the start will create about 400 jobs in the area.

TSB Trust is the insurance arm of the bank. Its headquarters have been in Andover, where it employs over 2,000 people, since 1973.

Mr Brian Brown, chief executive of TSB Trust, said the 400 jobs represented only a start. "We expect it to rise to about 2,000 by the mid-1990s", he added.

Mr Peter Walker, the Welsh Secretary, said the move was one of the biggest grant-aided investments made in the UK.

"It will be a project containing within it some of the most sophisticated information-technology and communication equipment in the world.

"I hope in the next few years we get a really good flow of such businesses leaving the expensive south-east of England and coming to take full advantage of what is available in Wales."

The TSB Trust's move, following that of Chemical Bank to Cardiff some years ago, showed what "wonderful opportunities" there were for service industries in the principality, Mr Walker said.

The trust's Andover operation will not be affected, although about 50 senior staff will be transferred to South Wales.

TSB Trust has bought a 16-acre site on the outskirts of Newport, where it intends to build a 300,000 sq ft office block.

Until that building is ready, it has taken three offices nearby on short leases from the Welsh Development Agency, one of which was previously occupied by National Panasonic, the Japanese television and hi-fi company.

TSB Trust handles pensions, unit trusts and offshore funds as well as general insurance and assurance. It has grown rapidly in recent years. When it moved to Andover 14 years ago its staff in the town was just 40.

Guinness Peat title

THE directors of Guinness Peat Group, the financial services company, yesterday announced their intention to change the company's name to GPG. An extraordinary general meeting on January 11 will consider a resolution to approve the change.

Liberal pragmatist with a sporting bent

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

MR JUSTICE Scott – one of three South African-born judges on the English High Court bench – is regarded as being on the liberal wing of the judiciary.

"Open-minded" and "independent" are other descriptions used. Those who know him predict an early elevation to the Court of Appeal.

Scott also appears to be a pragmatist. Two years ago, agreeing to end a sequestration order that had deprived the South Wales area of the National Union of Mineworkers of more than £700,000 of its funds for seven months, he was not troubled by the union's failure to apologise for defying a court order.

"The court's dignity," he said, "does not depend upon or require a public recantation, the sincerity of which, if offered, might in the circumstances be open to question."

The important thing, he said, was that the rule of law had been seen to prevail.

Sir Richard Rashleigh Folliott Scott, 54, - the son of a lieutenant colonel in the Gurkha Rifles - was educated at Cape Town University and Trinity College, Cambridge, winning a Cambridge rugby blue in 1957.

He was called to the English Bar in 1959 (he married his Panamanian wife the same year) and was appointed a Queen's Counsel in 1975.

He was chairman of the Bar in 1982-83 and was appointed a judge of the Chancery Division in 1983.

Mr Justice Scott was in the same chambers in Lincoln's Inn as Sir Nicolas Browne-Wilkinson, the Vice-Chancellor – the senior judge in Chancery. Sir Nicolas is also regarded as a judicial liberal, not least because of his ruling in favour of the newspapers in an earlier round of the Spycatcher saga.

In one part of his judicial incarnation, Mr Justice Scott too is a Vice-Chancellor – of the County Palatine of Lancaster (of which he was Attorney-General between 1980 and 1983). In this capacity, he spends 18 weeks a year trying Chancery matters in Manchester and Leeds.

Out of court, Mr Justice Scott's interests appear to be almost exclusively sporting: Who's Who lists his recreations as hunting, tennis and bridge.

Mr Justice Scott: open-minded reputation

Raymond Hughes reports on the High Court's MI5 memoirs ruling

Judge rejects ban on Spycatcher

THE HIGH Court yesterday rejected the Government's claim for a permanent ban on press reports of Spycatcher, the memoirs of Mr Peter Wright, a former MI5 officer.

In a three-hour judgment, Mr Justice Scott said any damage the book might cause to Britain's national security must already have been inflicted as a result of its worldwide dissemination.

Factors in favour of press freedom were "of overwhelming weight," the judge said.

Sir Patrick Mayhew, QC, the Attorney-General, had asked the judge to make permanent the temporary injunctions that had, since July last year, prevented the Guardian and The Observer reporting information emanating from Mr Wright.

Sir Patrick had also sought a permanent order against the Sunday Times, which in July this year was temporarily restrained from publishing extracts from Spycatcher.

The claims were based on national security and the Government's contention that members of the security service owed a life-long duty of confidentiality.

The judge said that in writing and publishing Spycatcher Mr Wright was "in clear and flagrant breach of the duty of confidence he owed the Crown."

The spectacle of him making money out of the unrestricted sale of his book in the UK would be offensive and an affront to most decent people. However, the judge was not satisfied that it would cause any additional damage to national security interests.

He said that many thousands of copies of Spycatcher had been published all over the world

The judge commented on the marked contrast between the Government's "strenuous" actions to prevent publication of Spycatcher and its lack of action – the apparent reasons for which he described as "shallow and unconvincing" – to prevent publication of other books about the security services.

The judge said the Government's national security argument had undergone a "curious metamorphosis." Initially it had been based on the need for a secret service to be secret; it then changed to an argument concerning the need to promote the efficiency and reputation of MI5.

The judge spoke of a "clash of rival philosophies" between Sir Robert Armstrong, the Cabinet Secretary, who had been the Government's principal witness, and the editors of the three newspapers.

Sir Robert would not accept that any freedom of speech or publication should be permitted so as to allow any information about the security service to be disclosed publicly by an "insider."

The judge said: "No question of a balance between the proper requirements of national security on the one hand and of freedom of the press on the other hand arose.

"I found myself unable to escape the reflection that the absolute protection of the security service that Sir Robert was contending for could not be achieved this side of the Iron Curtain."

The editors regarded any prior restraint, in the interests of national security, on newspapers' freedom to publish as an unacceptable fetter on press freedom.

Neither view, said the judge, was acceptable.

The price to be paid for an efficient and secure security service would be some loss of press freedom. The price to be paid for free speech and a free press in a democratic society would be the loss of some degree of secrecy about the affairs of Government, including the security service.

Referring to Mr Wright's allegation of a plot by MI5 officers to destabilise Mr Harold Wilson's Government, the judge said it would be objectionable if such an allegation could not be placed before the citizens of this country when it was being publicised elsewhere.

If the press heard of an allegation by an insider that, if true, would be a scandalous abuse by officers of the Crown of their powers and functions, the duty of confidence could not be used to prevent the press from reporting the allegation.

The judge rejected the Government's argument that it ought not to be exposed to pressure and embarrassment by the reporting of Mr Wright's allegations.

"The legitimate purpose of the duty of confidence imposed on members and ex-members of MI5 is to preserve the secrecy of MI5's affairs and thereby enable it to operate efficiently.

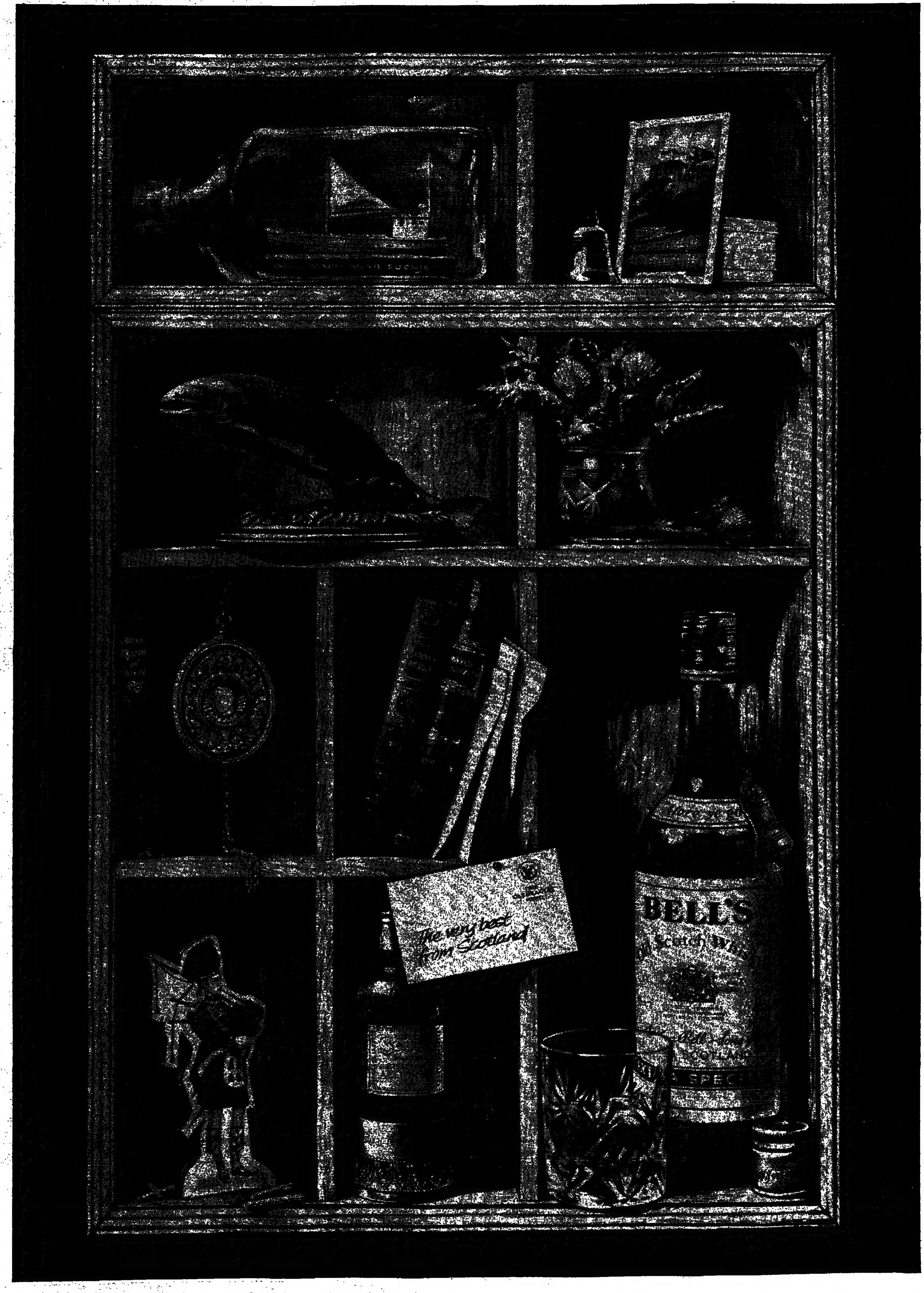
"The purpose is not to save the government of the day from pressure or embarrassment.

"The ability of the press freely to report allegations of scandals in government is one of the bulwarks of our democratic society. It could not happen in totalitarian countries," the judge said.

THE NEW Zealand Court of Appeal yesterday refused an injunction sought by the British Government to prevent a Wellington newspaper from publishing extracts from Spycatcher.

In an interim verbal judgment, the court said the main factor for refusing the injunction was the extent to which contents of Spycatcher had already been published.

The court was ruling on an appeal by the British Government against a High Court decision last week which had allowed The Dominion newspaper to resume publication of extracts from the memoirs of Mr Peter Wright.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MANAGEMENT: Small Business

Cult of youth is more than a game

LIKE MANY other teenage computer enthusiasts, David and Richard Darling began devising their own computer games on their home computer after school. Unlike most of their contemporaries they have gone on to create a successful business from their hobby and, at the ages of 21 and 19 respectively, to head a £2m turnover company.

Code Masters, the company they set up just over a year ago, claims to be the leader in the UK computer games market, though this claim is disputed by Mastertronic, one of its main rivals. And while the computer craze of a few years ago has passed, the UK is still the largest market in Europe for ever more sophisticated computer games.

The two brothers, who manage to look even younger than their already tender ages, began playing computer games in an amusement arcade about six years ago. Unable to afford the £7 which games cost to buy at the time they wrote their own.

"We felt our own games were better and thought there must be a way of making a business out of this," David recalls. By saving pocket money and school dinner money they scraped together £70 for an advertisment in one of the computer magazines offering their own games for sale.

"We were surprised by the response; it generated £1,000 worth of sales," says Richard, who, with his brother, spent many a late night making copies of the games they had written to meet the orders. Soon they were able to invest in a moped to take their games to a nearby duplication company specialising in demo tapes for pop groups.

By 1984 their reputation was growing and they were offered a contract by one of the larger video game companies, Mastertronic, to supply it with new computer games. This arrangement lasted for a couple of years but in 1986 the two brothers went independent again, setting up Code Masters with £150,000 of their own savings and royalty earnings.

To build up their business, they targeted the budget market – games retailing for £1.99 – with titles such as BMX Simulator, Mission Jupiter and Brainache. Budget games now account for 80 per cent of the market, previously dominated by much more expensive tapes.

The growth of the business has meant the two have had to bring in professional managers to handle operations and export sales. They also took on their father, Jim, who had for many years run his own contact lens business, to handle sales and book-keeping. As well as a dozen full-time staff they also use more than 100 free-lance computer programmers.

Based in a converted barn in Southam, Warwickshire, Code Masters already exports throughout continental Europe and Australia and is negotiating a distribution deal in the US. In the longer term the two brothers can envisage selling their company though they are keen to stay in the computer industry.

Alan Harper

David (left) and Richard Darling: felt their own games were better

Why only a few are likely to pass 'go'

Charles Batchelor takes a seasonal look at those ever hopeful of making the board

IF YOU CONVINCE yourself, after grappling with the latest popular board game this Christmas, that you could devise something better yourself – think again. Designing and, even more important, bringing to market a successful board game can be even harder than winning at Trivial Pursuit or avoiding landing on an hotel-studded Park Lane in Monopoly.

Up to 5,000 people a year write to John Waddington, the leading UK board game manufacturer, with a suggestion for a new game. But the company launches only about 10 a year and these are more likely to have come from a professional games designer or from Waddington's own development team than from the hopeful amateur.

"I always start with the bad news," says David Parker, a United Biscuits secondee with the London Enterprise Agency (LEntA), who advises would-be games-makers. "I tell them that for every new game you see on the counter there have been 999 failures."

Despite such obstacles and ferocious competition from the big US games manufacturers, Kenner Parker and Milton Bradley, a small number of hopefuls do make the breakthrough.

Neil Maddison is on the lowest rung of the ladder. Now 24, he gave up postgraduate physics research at York University to develop an idea for a board game based on his own travels by train around Europe.

After taking a Graduate Enterprise course at Durham University Business School, he has spent the past few months refining his ideas for "Worldwise" ready for launch early next year.

Rod Castles, formerly a self-employed builder, has gone a stage further and is now producing a range of magnetic board games, cards and puzzles from a converted warehouse in Greenwich, south-east London.

He raised about £90,000 in finance from his bank and a number of private backers to set up Stinkers Cards last July. He aims to employ about eight people and reach turnover of £200,000 or more in a year's time.

Maureen Hiron, invalided out of teaching when an air extractor fell on her head, has spent the past five years devising a series of highly successful board games which now sell in 26 countries round the world.

Her first game, Continuo, which involves matching coloured cards, sold more than 200,000 copies in the two months up to Christmas 1982, while Cavendish, based on a 1,000 year old Japanese game, is selling well in Japan.

In March it brought in City backers who have strengthened its management and finances and there are plans for a public listing in 1989.

But even when the small company producing games has established a foothold it is operating in a particularly tough market. The main problems it faces are:

- The seasonal nature of demand. Sales are concentrated in the run-up to Christmas which means that the games makers are flush with cash at the year-end but hard-pushed by autumn.

The new games company must also make sure it correctly times its arrival in the market so as to catch the trade fairs early in the new year when the buyers decide what they will carry the following Christmas.

To counteract the bunching of sales at the end of the year many small companies attempt to broaden their activities. John Church and two student friends set up Cheatwell in 1986 to market Masquerade, a board game based on the idea of charades. The company is already looking to diversify into other less seasonal products using the same materials as those required for board games – cardboard, paper and plastics.

The small games makers get round the problem of the lengthy quiet season by sub-contracting out the actual production of the games. Cheatwell uses no fewer than 10 companies to produce Masquerade.

- Keeping up the flow of ideas. The life of a game can be extended by licencing sales in overseas markets and developing new versions of the same basic formula. Hiron Games has launched a triangular version of Continuo, which in the original uses square game cards.

But to guarantee the long term future of the company the entrepreneur must be able to generate new ideas. Hiron, a colourful, outspoken individual who has played bridge for England, believes the knock on the head she received stimulated the innovative part of her brain. Three new games have been launched this year and she has enough lined up to last another 18 months.

But not everyone can work so quickly. Jim Wilkinson, a former shipwright from Wallsend-on-Tyne who began producing wooden board games when he was made redundant, says it is a slow process.

"Most games evolve rather than come in a blinding flash," he says. He believes most games, when first conceived, are too complicated to appeal and tries out his ideas on his children.

- Getting the game into the shops. Buyers are reluctant to order from a small games company because the game will not be backed by TV advertising and they cannot be sure it will be delivered in sufficient quantities. Cheatwell's John Church says he had a hard time until he actually began producing Masquerade and could show buyers the finished product.

Packaging is all-important. "What you are selling is a mystery on the shelf," says LEntA's David Parker. "If you are not spending a lot on promotion the top of the box has to be very explicit."

And the designer has to be careful to balance the size of the box with its contents. "The trend in the market is to package a lot of air to give a perceived value to the game," says Church. But too much air with very skimpy contents is counter-productive and people will not feel they have got value.

Tough though the battle is, the small games maker does have one trump – it can react more quickly to changing fashions than the large company. Maureen Hiron recounts how she got a trivia type game on to the shelves of the retailer W.H. Smith within three months of the first discussions. "The big companies need six board meetings to agree even to scratch themselves," she says.

Barriers to inheriting a healthy business

PASSING ON a private company to the next generation can be made very difficult or impossibly expensive by the present system of inheritance tax, according to the Association of Independent Businesses.

The association, which has 5,000 members, has made reform of the inheritance tax system one of the main planks of its 1988 budget campaign.

The difficulties associated with ensuring the survival of the family firm has attracted little attention in Britain in recent years though on the Continent the French, and to a lesser extent the West Germans, have been devoting thought to the problems facing the post-war generation of entrepreneurs (this page December 15).

In 1984/85, capital transfer tax, as it was then known, affected 24,000 individuals (though not all owned businesses) and brought in £664m of tax; the yield from inheritance tax in the present financial year is expected to reach £1bn.

While inheritance tax can be avoided by giving away assets in one's lifetime, provided one lives for at least seven years after making the gift, this is not always a realistic option, the association says. Giving away a large part of one's business during one's lifetime may reduce the owner's income and his control of the business.

Even worse, says Brendan Donnellan, general secretary of the association, is the situation of the company where the owner dies before doing any tax planning. The business, or large parts of it, may have to be sold to meet tax liabilities.

The sharp rise in house prices, particularly in the south-east, has meant that even fairly modest estates will be liable for the tax.

The rates of tax are far too steep in the initial stages, the asociation agues. It wants the nil rate band to apply up to £250,000 and bands to be graded less steeply thereafter.

The tapered relief for gifts where the person dies more than three years after the date of the gift, but still less than seven years after, is totally inadequate, the association argues.

The association is also calling for further relief on assets which are difficult to realise, especially shares in unquoted companies. They should be free of tax until the owner actually sells them.

Getting a grip on failure

THE EUROPEAN Community's network of Business and Innovation Centres (BICs) – science parks set up to launch innovative small companies – appears to have cut the failure rate of its vulnerable young charges to impressively low levels.

A recent survey of the 17 BICs which were up and running by the end of 1986 showed that the failure rate among the more than 400 companies based on a BIC was just 4.9 per cent.

On average the BICs, some of which were existing science parks which took the BIC label, were 3½ years old. By the time they are five years old, and the strains of the market place have begun to take their toll on their young charges, the failure rate is expected to rise to 20 per cent, according to Christopher Norman-Butler, executive chairman of the European Business and Innovation Centre Network (EBN), the Brussels-based umbrella organisation.

This figure is not only surprisingly low compared with the average failure rate for small firms in the UK – one third within three years – it compares with a 34 per cent failure rate recorded among companies based in the 46 centres run by the National Business Incubator Association, EBN's US counterpart.

While this appears to show the success of the European BICs, the low failure rate does raise the question of whether the BICS are being venturesome enough in the companies they back, Norman-Butler says.

Nevertheless, the number of BICs continues to grow. There are now 25 in operation and a further 18 in preparation within the EC. And the idea is catching on elsewhere. The Chinese government has asked the EBN to help establish four incubator centres for small firms while Japan is also showing interest in the idea.

FT LAW REPORTS

Law firm validly expels partner

WALTERS AND OTHERS v BINGHAM; BINGHAM v WALTERS AND OTHERS
Chancery Division: Sir Nicolas Browne-Wilkinson, Vice-Chancellor: December 17 1987

A PARTNERSHIP carried on by oral agreement on the basis of a draft partnership deed, is not a partnership at will but is for a fixed period and so cannot be dissolved by only one partner if, on the true construction of the agreement, the parties intended it should end on execution of a new deed and not on the date specified in the draft. And even if it were a partnership at will, notice of dissolution by one party is invalid if served in bad faith, whereas the others have a non-expropriatory power to expel him if grounds for expulsion exist under the draft deed.

Sir Nicolas Browne-Wilkinson V-C so held when giving judgment for solicitors, Mr Michael Walters and 28 other partners in Theodore Goddard & Co, against Mr Andrew Bingham, in two consolidated actions in which the partners claimed a declaration that they had expelled Mr Bingham, and Mr Bingham claimed a declaration that he had dissolved the partnership.

HIS LORDSHIP said that Theodore Goddard was established in 1904 and had carried on business on the terms of various fixed period partnership deeds.

There had been long periods between expiry of one deed and execution of the next. When each new deed was executed it was expressed to operate retrospectively from expiry of the last deed.

The last executed partnership deed expired on April 30 1983. No further deed was executed.

A final draft of a new deed to regulate the period from May 1 1983 to April 30 1986 was prepared and circulated. Clause 17 of that draft gave power to expel in certain circumstances.

The minutes of a partners' meeting of May 21 1985 recorded that the partners had resolved that "pending adoption of a new deed" the practice should continue on the terms of the final draft deed as varied by adoption of a report by the planning committee.

Prior to July 1986 no new partnership deed had been executed.

Mr Bingham became a partner in the 1970s. In 1985 and 1986 questions were raised about offshore funds with which Mr Bingham was concerned. The partners investigated the matter, but Mr Bingham failed to provide the necessary information.

Attention was focused largely on three Jersey trusts – Frame Trusts, from which £280,000 had been paid to an Isle of Man company and then on to others; Lucas Charitable Trust, from which £225,000 had been paid away to another company; and the Sandra Natalie Miller Settlement, from which £500,000 had been paid out. The sums were not readily traceable.

The partners received ever-decreasing co-operation from Mr Bingham.

On July 4 Mr Bingham arrived at the firm's offices with notices of intention to dissolve the partnership. Two partners were away but were informed of the notices by other partners.

On July 8 the partners resolved to expel Mr Bingham under clause 17 of the final draft, on the grounds that he had committed flagrant breaches of his duties as a partner and had acted in a manner inconsistent with good faith between partners.

In the present consolidated actions, Mr Bingham claimed a declaration that he had dissolved the partnership. The partners denied dissolution and contended they validly expelled Mr Bingham.

The pleadings in the partners' action alleged that, at Mr Bingham's instigation, trust monies had been paid away to third parties without consideration, in breach of trust. Also it was alleged that he made false representations to his partners, knowing they would rely on them to their detriment.

The defence contained no traverse of those allegations. They must therefore be taken as admitted for the purpose of the proceedings. Although the words were not in terms used, Mr Bingham was admitting fraud.

It was also alleged that Mr Bingham served the dissolution notices with a view to impeding investigation of his dealings and inflicting damage on the partnership.

The defence stated it would not contend that the notices were served with no such view. There was accordingly an admission that the notices were served *mala fide* with the intention *inter alia* of inhibiting investigation of breaches of trust to which Mr Bingham was knowingly a party.

The questions for decision by the court were:

1. In July 1986 was there (a) a partnership at will (the period specified in the final draft having expired); or (b) a partnership continuing on the terms of the final draft until a fresh deed was executed, pursuant to the partners' resolution of May 21 1985?

The May meeting gave rise to an oral agreement to adopt the final draft, the minutes merely being a record of such oral agreement.

On the true construction of the minutes, the partners agreed to adopt the final draft for an indefinite period, ending when the new permanent partnership deed was executed.

Accordingly, the terms of the final draft were still in force in July 1986. The firm was not then a partnership at will.

2. Could Mr Bingham dissolve the partnership by notice?

Prima facie, not being a partnership at will, it could not be dissolved by notice given by one partner.

Section 32(c) of the Partnership Act provided that subject to agreement between the parties, a partnership "for an undefined time" was dissolved by a partner giving notice of intention to dissolve.

Mr McDonnell for Mr Bingham submitted that the partnership was for "an undefined time", not a fixed term, and that Mr Bingham could serve effective notice of dissolution.

The argument was rejected. The partnership, expressed to last until the new permanent deed was executed, was for a "fixed term", not an "undefined time". An indefinite period was not necessarily an undefined period.

It had been held by the Court of Appeal that a partnership which was to continue until dissolved "by mutual arrangement only" could not be dissolved by notice since it was for a defined time (*Moss v Elphick [1910] 1 KB 846*). The case was indistinguishable and binding.

Mr Bingham therefore had no right to determine the partnership by notice.

3. Did Mr Bingham give effective notice of dissolution?

Prior to the meeting on July 8 all the partners knew of the notice of dissolution. There being no statutory requirement for written notice, Mr Bingham did cause notice to be received by all other parties before the expulsion meeting.

Therefore, had he been entitled to serve notice of dissolution, he gave effective and valid notice.

4. Were Mr Bingham's notices invalid as being served in bad faith?

Mr Ferris submitted that the admissions on the pleadings showed Mr Bingham served the notices with fraudulent intention – namely an intention to impede the investigation of his own fraud. He submitted that an act done to conceal fraud was itself fraudulent and void.

The general principle was undoubted – "No court will allow a person to keep an advantage which he has obtained by fraud ... Fraud unravels everything" (*Lazarus Estates [1956] 1 QB 702*).

Mr McDonnell submitted that a man did not act fraudulently if he did an act which was itself innocent (ie served a notice), even if his intention in doing that act was to cover up an earlier fraud.

An act done with intent to conceal a pre-existing fraud was itself fraudulent.

On the admissions made by Mr Bingham, he served the notices of dissolution with intent to conceal his own fraud and such intent was itself fraudulent.

As a result the notices of dissolution were of no effect.

5. Was the power of expulsion exercisable?

Clause 17 of the final draft provided that if any partner committed "any flagrant breach of his duties as a partner or be guilty of any scandalous behaviour ... it shall be lawful ... to expel him". It was common ground that if the power of expulsion were exercisable, good grounds for expulsion existed.

Mr McDonnell submitted that if, contrary to the court's view, the partners were holding over as partners of will, the power of expulsion was not exercisable.

He relied on *Clarke v Leach (1863) 1 De GJ & S 409* which was treated by *Lindley on Partnership 15th ed 188* as continuing authority for the proposition that a power of expulsion contained in an expired deed did not continue to apply when partners held over.

That case did not provide authority as to the law applicable in a case occurring 120 years later in wholly different circumstances, after the passing of the Partnership Act 1890.

In modern professional partnerships with numerous partners, a power of expulsion was commonplace and normal. Such a power was essential if total dissolution were to be avoided when it was necessary to get rid of one unsatisfactory partner.

In a large partnership in which the power of expulsion was normal, a power to expel which was not expropriatory was consistent with a partnership at will, and continued to apply during any period in which the partners held over after expiry of a fixed period.

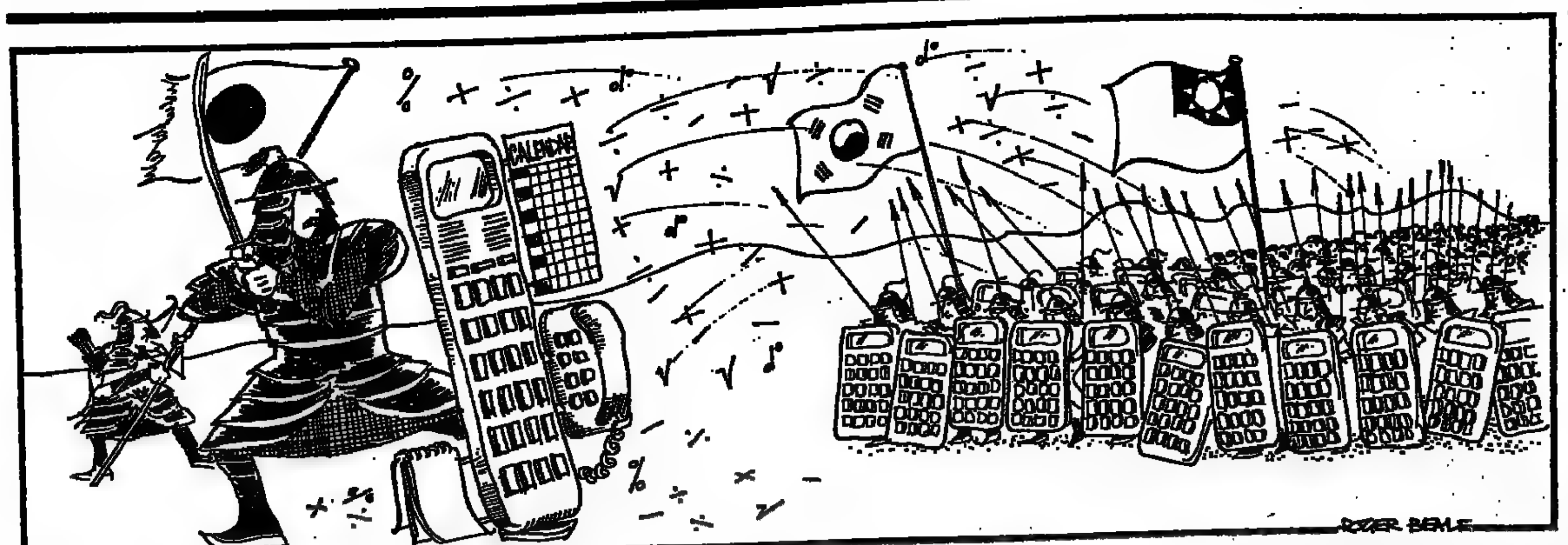
Therefore, even if contrary to the court's view, there was a partnership at will after April 30 1986, the power of expulsion remained exercisable and was validly exercised on July 8.

The partners were carrying on business on terms of the final draft, and Mr Bingham was validly expelled by service of the notice of expulsion.

For the partners: Francis Ferris QC, Barbara Dohmann QC and Monica Carss-Frisk (Theodore Goddard & Co).

For Mr Bingham: John McDonnell QC and Benjamin Levy (Philip Conway, Thomas & Co).

By Rachel Davies
Barrister



Why Japan is calculating on more than just arithmetic

Roy Garner examines the country's rapid advance into 'electronic stationery'

"IT IS vital that Japanese companies add value to their calculator-type products; if they don't they'll soon lose the whole business to the South Koreans and the Taiwanese," says Martin Roth, an electronics industry analyst with Kleinwort Benson.

Unable to compete on price alone, Japanese manufacturers are engaged in a desperate struggle to upgrade features on their conventional products or, ideally, come up with entirely new items.

Indicative of this are the many innovations emerging with the growth of a Japanese 'electronic stationery' market. Notable among these are:

- The 'electronic notebook', which features calculator, personal schedule, telephone directory, calendar and other specialised funtions within a pocket-sized unit.
- An 'automatic telephone dialler' the size and shape of a calculator, which can place phone calls with a single touch using a databank of names and numbers.
- Variations on the hand-held copier concept.

The principal players in the market are calculator manufacturers such as Sharp, Casio and Canon, which have been beset by severe competition from producers in the newly industrialised countries of Asia.

In the case of the electronic notebook, a standard calculator format has been supplemented by alphabet and function keys and an enlarged liquid crystal display (LCD). The most successful of these units, and the first on the market, was the Sharp PA 7000, launched in January 1987. In this model the display, plus an integral I/C (integrated circuit) card slot, form one half of a folder-type product.

The company says it sold 200,000 units of the PA 7000, priced at Y19,800 (£81) each, between January and September, and expects 100,000 sales this December alone.

Initially, most users bought the unit and a card for a 'Kanji dictionary' function. The Japanese often have great trouble in remembering how to write the thousands of Chinese characters which make up their language, and with this function users can call up all the characters corresponding to a particular phonetic symbol, indicated adjacent to the Roman alphabet on the keyboard. They then use a selector button to obtain the reading required.

A phone directory function has also been popular. The PA 7000, can store 330 names, phone numbers and addresses, and these are automatically placed in alphabetical order even when new names are added.

A similar function on the Casio DK-1000 unit, priced at Y14,800, can store data on 560 people. But the big selling point for the Sharp product is, increasingly, its unique slot-in cards.

The three optional cards already on sale include, a Y10,000 translator card, which offers key phrases, under 14 headings, in either Japanese, Chinese, Korean, French, Spanish or English; a 16KB memory card (Y10,000) and the Kanji dictionary (Y7,000).

Sharp's chief product planner, Toshio Honda, says that the company will soon introduce 'salesman', 'engineer' and 'cost-estimation' cards, plus a special 'After 5' card for gourmet diners – though no further details of the cards' contents are yet available.

Honda comments that in sales of the electronic notebook "the I/C card is a key point," and attributes the popularity of the product to the confined space available in Japanese offices and on trains, saying that "big lap top-type computer products are not popular; we need portable, pocket units."

Casio's response to the I/C cards comes in the shape of its IF 8100 'note-taking screen'. Hand-written memos or graphics can be directly inscribed on an LCD display and stored under a chosen code. Casio spokesman, Katsuhiko Yamaguchi, says that since its launch in mid-1987 sales of the unit have been 5,000 a month.

A possible future development is a variation of the Casio IF 8100 concept in which larger write-on screens will be networked throughout the office. A ready market awaits such a system in Japan, where hand-written memos continue to be a very popular form of inter-department communications.

The direct transmission of such notes to a colleague's desk will allow the retention of the personal flavour of the hand-written note, combined perhaps with machine-generated graphics.

Martin Roth of Kleinwort Benson points out, however, that many sales of electronic stationery are as novelties or gifts, and says of the note-taking screen; "It's incredibly neat, but you could do the same on a scrap of paper."

Canon is also sceptical of the electronic notebook concept, and is currently concentrating its efforts on a combined phone directory/auto-dialler. When held against a push-button telephone mouthpiece it automatically dials, with a single touch, numbers stored in its databank.

Canon's four-line display DF-100 unit can also be used to access data services, for checking bank accounts, inventories or stock market information. Tadashi Yokoyama of Canon's calculator division explains that: "We think the ordinary paper address book will survive, so the electronic notebook is not attractive for Canon. Our emphasis is on the auto-dialler, so our aims are different in product development."

Auto-diallers are being developed by all the leading companies, chasing the opportunities presented by the liberalisation of Japan's telecommunications market.

Casio's Yamaguchi says: "Within four to five years Casio could have an important stake in the telecoms industry, so the auto-dialler is a fundamental product for us".

Meanwhile, on another electronic tack, Sharp and Casio have developed new products borrowing heavily from the hand-held copier concept pioneered by Plus Co. Sharp's Y29,800 Copymate uses a hand-held scanner which feeds graphic or print images directly into a compact copier unit for hard-copy printouts.

Casio's Y32,800 'Handy Writer 7' features a 'notebook-style' keyboard and a printer unit in its base. Stored data or images can be printed out in five colours by drawing the unit slowly across a sheet of paper. The Japanese New Year gift-giving season is sure to give a boost to the electronic stationery market, but the country's calculator makers are not out of the woods yet.

Grace ships out super powders

BY JANE RIPPETEAU

W.R. GRACE, the US chemicals company, has begun shipping commercial quantities of a powdered superconducting material made in a proprietary chemical process with high purity, according to Nicholas D. Spencer, senior research chemist in the Grace Research Division in Columbia, Maryland.

In fabrication, "we've come up with something that's unique," says Spencer. The material is the usual compound of yttrium, barium, copper and oxygen (called "1-2-3" in the industry) and looses electrical resistance at 93 degrees Kelvin. The fine, loose powder is made up of particles as small as under one micron, he says.

The material is not as good as that typically produced in small quantities by researchers for their own use, according to Jeffrey Lynn, a professor of physics at the University of Maryland who has conducted measurements on the product.

But the advantage, he says, is that Grace is able to produce good-quality superconducting material "in very large quantities, by the 100s of kilograms routinely."

Grace is one of several companies now shipping commercial quantities of the material. But the substance is in demand mainly as a research product, as almost no applications have been developed yet. There is a market for kits of compacted powder sold to schools, and weapons laboratories are beginning to buy in quantity for use in heat sensor systems.

Most researchers making up their own supplies of superconductor compound physically grind and mix the metallic components, then fire them with oxygen in a kiln.

According to Spencer, the Grace material is processed from a liquid solution, and hence is more homogeneous than ground compounds.

Grace uses a proprietary process, for which a patent is pending, to convert the liquid into fine powder. The process is derived from the company's expertise in making oxide catalysts, which Spencer says have a chemistry very similar to the new superconductors.

He says the company has about a half dozen customers so far. The material sells for $1,000 per kilogram.

Norwegian designs on the high life

BY FAY GJESTER IN OSLO

STENSTADVOLD and Jones an architectural partnership in Norway has designed a unique, metal house which could be assembled at a shipyard, like the superstructure of an oil platform.

The designers, of Baerum, near Oslo, are seeking to set up an organisation which can market their brainchild abroad. They aim to find a Norwegian shipyard which could assemble the house, from prefabricated components.

From the shipyard's quay, the house could be despatched by sea to the foreign customers. Stenstadvold and Jones sees promising potential markets in the UK, West Germany, Sweden and Canada.

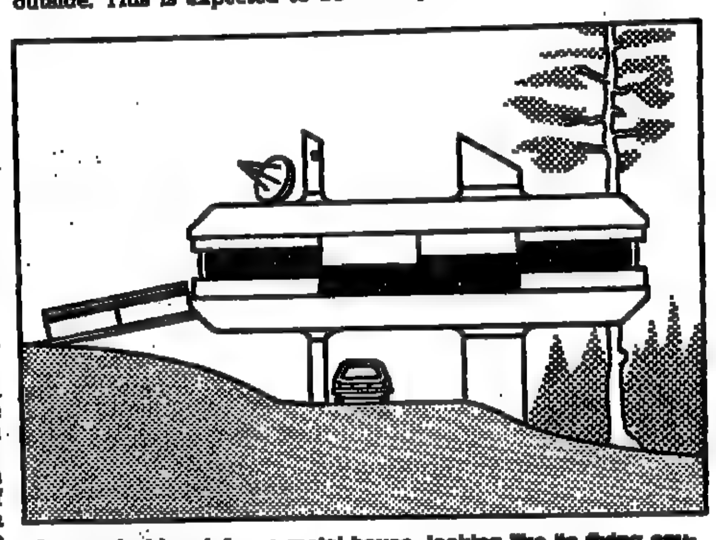
The house looks something like a flying saucer on stilts. It created great interest at a recent housing exhibition – Build for the future – held in Baerum this autumn. After the exhibition closed it was one of the first display houses to be sold.

It fetched NKr3.15m (£271,200) and a second house has been ordered for erection in an Oslo suburb.

Because the house rests on pillars, laying a frost-proof foundation for it takes only a few hours, compared with the several weeks usually needed to prepare the foundations of conventional Norwegian dwelling.

Another advantage is its highly efficient insulation – providing protection from both heat and cold. The pumps in its heating system can be operated in reverse, providing air conditioning in the summer. Also its air intakes are equipped with filters which, it is claimed, ensure that the air indoors is cleaner than that outside. This is expected to be a selling point in West Germany, where a show house is to be erected.

Christen Stenstadvold, co-designer, points out that the house on display at the Baerum exhibition was a luxury model, crammed with electronics and such features as a jacuzzi in the living room. A normal model would be no more expensive than the average cost of a Norwegian house, he says.



Stenstadvold and Jones metal house, looking like "a flying saucer on stilts," is designed to be manufactured in a shipyard.

FINANCIAL TIMES SURVEY

Yugoslavia, with inflation approaching 200 per cent, a $17.5bn foreign debt, its industry in shackles, and a Federal government weakened by regional rivalries, hopes its good intentions will help secure easier debt repayment terms. Creditors have little option, believes **Larry Klinger.**

Yugoslavia TRADE AND INDUSTRY

CONTENTS

Illustration by Ingram Pinn

Promises fail to convince

YUGOSLAVIA'S perennially optimistic government is maintaining a show of cheerfulness but a note of desperation is increasingly being sounded in Belgrade.

Earlier this month the country's deputy premier Janez Zemljaric warned that "total economic collapse" was imminent if foreign creditors did not grant a reprieve on debt repayment.

That was no over-statement. Inflation, now 170 per cent, is climbing steadily. Foreign debt at $17.5bn equals 10 per cent of gross domestic product while debt servicing eats up half the country's foreign currency earnings.

Unemployment at 17 per cent has sharply increased tensions among the workforce arising from low wages and falling living standards. Strike activity has risen to unprecedented levels, with an estimated 200,000 workers involved in more than 1,300 strikes this year.

Meanwhile confidence in the banking and financial community has been badly shaken by the Agrokomerc scandal, which revealed financial and political corruption in a major state food company.

The Government's promises of jam (and economic rectitude) tomorrow no longer convince even its supporters, however much sympathy they may feel for those struggling with an impossible task.

The authorities have tried to put a brake on the economic downhill slide with successive reform packages, austerity measures and stabilisation programmes. But none has yet had any marked impact other than to exacerbate social unrest.

For years the Yugoslav authorities have relied on the country's unique position of non-alignment with East or West – in the East but not of it – as insurance against economic disaster. No one, they calculated, and rightly, would be prepared to stand by and watch them slide down the plughole.

That still appears to be the case. But western creditors are becoming increasingly impatient – their sympathy for the Government's intractable political problems is wearing thin. And the present mood of rapprochement between Moscow and Washington will not help Yugoslavia's pleas for consideration as a special case.

Yugoslavs, both within the government and outside it, are the first to identify their problems and their inability to deal with them, with a candour all too rare among their socialist neighbours.

But there is one abiding problem, from which all others grow, which cannot be easily discussed: the system bequeathed by Tito has proved unworkable.

So long as Yugoslavia was led by a man of his stature, skills and historical credentials, the task of reconciling the national interests of the six republics and two autonomous provinces was manageable.

But the system of Federal Government could only work, it seems, with a figure at the centre strong enough to bang heads together or persuade republican leaders to see their true interests as lying in compromise and national unity.

In this, Mr Branko Mikulic, the Prime Minister, has been no more successful than his predecessor. Slovenia and Croatia, with living standards reflecting their proximity to Austria, perceive their interests on most questions as lying in a very different direction from those of less-developed Macedonia, or Bosnia-Herzegovina. And signs of resurgent Serb nationalism, currently causing disruption in the League of Communists in Serbia, is deeply unsettling to the smaller ethnic units.

The result is that while there is a high degree of consensus on the need for economic reform in the direction of market orientation, agreement on specific measures is almost impossible without a long haggling process during which many if not most of the teeth are removed. Implementation is even slower and more difficult.

The paralysis is not total. Last month the dinar was devalued by 25 per cent to boost the competitivity of exports. Prices, after hefty rises in some basic goods to remove the greatest disparities, have been frozen. Interest rates have been raised, and a bankruptcy law not only introduced, but also used to wind down the Agrokomerc company.

More important for the medium and longer-term, the federal authorities have secured the backing of the republics to reopen negotiations with the International Monetary Fund for new standby arrangements, with all the strict economic conditions that this would imply.

This is a humiliating blow for the Government, which only last year escaped from six-and-a-half years of strict economic supervision through successive standby arrangements. But a new arrangement is needed if the Government is to reach agreement with its foreign creditors on debt rescheduling.

The authorities are hoping for a conventional one-year, $500m standby arrangement, with a year's grace on repayments and then repayment over three to five years, coupled after the first year with a three-year, $1bn Extended Fund Facility of, say, four-years' grace and repayment over six years.

In the interim, between the conclusion of the last standby arrangements and the present, the Fund has been operating an "enhanced monitoring" of the Yugoslav economy, with regular tours of inspection by IMF fund teams advising the Yugoslavs and reporting back to creditors.

Yugoslavia's policy-makers believe nothing less than an internationally supported programme can reverse the country's economic stagnation and achieve the growth demanded by its official and unofficial creditors (international financial institutions hold about 25 per cent of Yugoslavia's external debt, governments about 35 per cent and commercial banks about 37 per cent).

"We repaid $1.5bn of our debt last year and another $600m to $700m this year," says one of the Government's senior financial policy makers. "We may be the only heavily indebted country that has managed in this period to reduce medium and long-term debt and we still managed to grow in several macro-economic categories, although in a very small way.

"Yugoslavia has always been moderate and realistic in its rescheduling and refinancing requests," says one of the Government's leading negotiators in the IMF talks. "But our patience may be running out," he adds, his voice hardening. "Everyone must realise that it is obvious that we cannot meet our obligations at the price of negative growth.

"We have stumbled along, yes, for two or three years, but industry is now obsolete; we can't get raw materials, our technology is insufficient, and we simply may not be able to produce."

Signs that conservatives are regaining considerable influence in the country's republics and autonomous provinces are causing the reformers in Belgrade considerable headaches. For if the trend continues, it can only reinforce regional rivalries and policy differences, further stalling the machinery of decision-making.

Some reformers fear that the economic crisis could provoke a resurgence of Stalinist attitudes. But optimists insist that they detect a sense of urgency pervading the country, a realisation that the seriousness of the economic situation requires decisive action.

There also appears to be a genuine improvement in relations - not long ago exceedingly frosty - between the country and the international financial institutions and banks. Yugoslavs involved in overseas negotiations claim that the IMF and the World Bank are showing much more understanding these days of Yugoslavia's administrative and political pressures.

"There are differences of opinion on which measure should follow which measure and at what speed," said one government foreign policy maker. "They want us to move more quickly but they now understand that to try to turn the country into a market economy overnight would be disastrous."

Yugoslav industry as a whole still sees profitability and efficiency as secondary to maintaining good relations with government, unions, and banks; to the need to preserve jobs, raise prices and/or wages; and to increasing investment.

Meanwhile, the Yugoslav federal authorities are wrestling with foreign debt, export initiatives, foreign exchange liberalisation, import liberalisation, banking reform, bankruptcy law, control of domestic demand, taxation reform, political as well as economic accountability, the encouragement of joint ventures with foreign companies to attract investment, movement towards a functioning capital market, and interest-rate policy.

Not long ago, Mr Mikulic, who came to office with a reputation for hard-nosed realism, was given only a 50-50 chance of serving out his full two-year term.

Now the punters say that if he can win backing for economic reform in the National Assembly, and secure the support of the country's international creditors, he might well be around for a further two-and-a-half years.

"If the authorities can agree to get on with reform - especially on the basis of a majority rather than the customary, time-consuming consensus - it will be a monumental achievement," says a prominent Western diplomat. "At least everyone in the country seems to be reading the same sheet music. But let's hope it's sooner rather than later."

Larry Klinger

Export-oriented trade should be given a boost by proposed economic reforms

Towards a freer market

YUGOSLAV TRADE policy for the coming year assumes a measure of success in the federal authorities' declared aim of restructuring the national economy. The planners have emphasised export-oriented production rather than overall growth in industrial output, and import liberalisation rather than the need to protect uncompetitive industry.

The reasoning is simple. Crippling foreign debt and soaring inflation have starved industry of the funds to buy inputs of sufficient quantity and quality, or the technology with which to modernise. At the same time, over-protected producers had little incentive to compete on an increasingly sophisticated world market. So fulfilling the planners' programme will require substantial progress in the economic reforms about which the authorities have been talking for so many years.

However, export promotion has begun with the recent devaluation of the dinar by an aggressive 25 per cent, and plans to slash restrictions on imports, reducing the proportion of imports covered from 80 per cent to about 25 per cent, are expected to be implemented within three years.

Moreover, the Government is pledged to liberalise further its foreign exchange policy in order to allow industry to retain more of its earnings from abroad for buying raw materials, equipment and high technology.

Industrialists are pressing for more leeway and appear to be making some headway with the politicians, not least because of support from the nation's banks, which still feel compelled to support many uncompetitive concerns.

However, while this year's export volume overall is an estimated two per cent less than in 1986, mainly due to the deterioration in trade with Eastern Europe, sales to the hard-currency world have increased by an estimated 2.2 per cent.

"This," according to a senior economic policymaker, "was despite our exporters having to pay what was in effect an extra tax. "Not only were they burdened by a lack of foreign exchange because of our external debt situation, they had to pay the price for the previous period of being unable to buy raw materials, and equipment."

The latest government figures show total exports for 1987 (January to November) worth \$9.70bn against \$9.24bn in the same period of 1986 and, exports to hard-currency countries, \$7.33bn against \$6.30bn.

The trade deficit for the same period has fallen to \$1bn from \$1.92bn in the 1986 period, but this is almost entirely due to the drop in imports to \$10.70bn from \$11.26bn in the 1986 period.

High prices and avid demand on the domestic market remove the incentive to raise quality and modernise technology, so as to be able to compete internationally.

Yugoslavia's economy is not the only one to have deteriorated; weakness in the economies of the developing countries has forced a significant change in Yugoslavia's trading pattern. With its own growing foreign exchange difficulties matched by those in the developing world, countertrade is surging.

Energoprojekt, Yugoslavia's leading construction and consulting engineering exporter, had no barter arrangements five years ago but now reckons nearly 20 per cent of its business abroad involves countertrade.

The company, which specialises in a wide range of civil engineering works and industrial and housing projects, uses trading companies in several countries to process its increasing number of deals involving such products as Malaysian tin, rubber and spices, Ugandan coffee and Peruvian iron ore, and says it is on the verge of completing a countertrade arrangement with the Soviet Union.

Meanwhile, Yugoslavia itself is pinning some of its trade hopes on the Soviet Union, which has a trade deficit with Yugoslavia in excess of \$1bn. While it is infrequent to hear official criticism of Soviet policy, much less of the Soviet leader, Mr Gorbachev himself, there are clear indications that Yugoslavia would like Mr Gorbachev to act on the issue when he visits Belgrade later this month or early in the new year.

Yugoslavia has little need for most Soviet goods, the poor quality consumer goods and the substandard machinery and equipment but none the less, Yugoslavia believes there is some scope for increased trade in oil, steel and coke.

Lack of quality, coupled with the fact that, like the Soviet Union, East European countries rarely pay in hard currency for Yugoslav goods, has reduced trade between Yugoslavia and its partners in the eastern bloc. They remain important suppliers of raw materials, and potential growth markets, but Yugoslavia, while still wanting to buy more in the east, is pinning its hopes for next year on continuing to expand its exports to the hard-currency area and on countertrade where it cannot match export credits and soft loans from other countries.

Draft planning forecasts estimate export growth at 4.9 per cent next year, and imports growth at 7.3 per cent, with imports of industrial inputs rising by 5 per cent and purchases of equipment by 12 per cent.

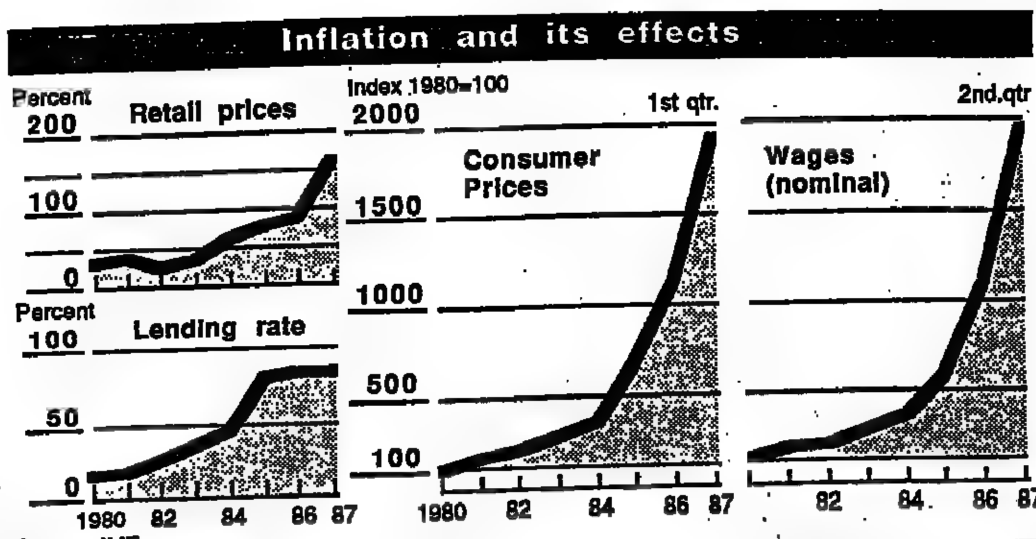
Sceptics worry that traditional Yugoslav slowness in reaching collective agreement and implementing decisions may defeat efforts to control the country's runaway inflation. Even the sceptics, however, profess to see a new trend of realism in the country.

Larry Klinger

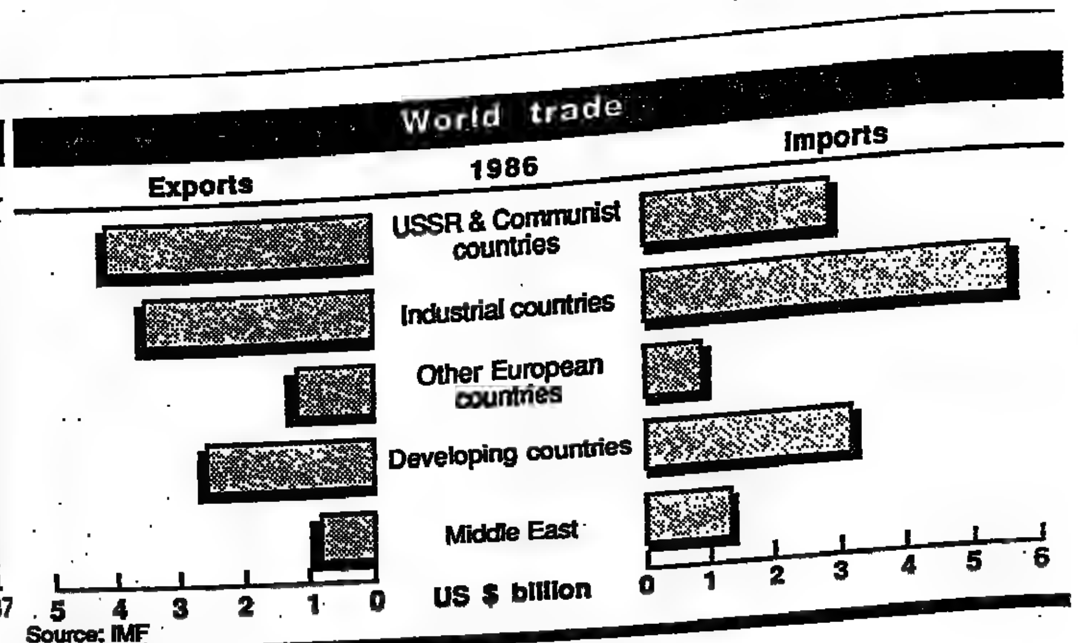
Economic indicators

	Plan '87	Expected '87 (per cent change)	Draft Plan '88
Social product	3.0	0.8	2.0
Industrial output	3.5	1.5	2.0
Agricultural production	2.5	-5.0	4.0
Industrial employment	2.4	2.5	1.0
Productivity in industry	1.0	-1.0	1.0
Real personal incomes	0.5	-6.0	-0.5
Living standards	1.2	0.5	1.3
Total exports	4.5	-2.0	4.8
Hard currency exports	6.3	2.2	5.0
Imports	4.0	-3.2	7.3
Gross investment in fixed assets	4.0	-8.0	2.5
Budgets and common consumption	-0.1	1.1	-2.8
(Budgets)		-0.5	-3.2
(Common consumption)		2.9	-2.4

Source: The Federal Planning Office



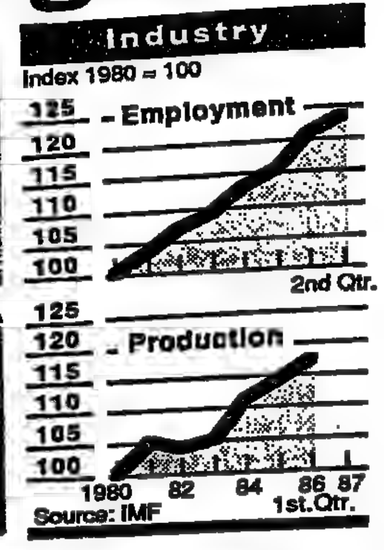
Source: IMF



Source: IMF

Crippling foreign debt and soaring inflation have starved industry of funds

New plan sets realistic targets



Source: IMF


Production line for the Jugo 55 car at Zastava, Serbia

YUGOSLAV PLANNERS optimistically forecast a 3.5 per cent growth in industrial output this year. Now, with a week to go, they will be pleasantly surprised if the figure reaches 1.5 per cent.

The target has been missed, they say, mainly because of an inadequate supply of imported inputs, resulting from the shortage of foreign exchange.

The plan envisaged a 4 per cent rise in imports in 1987. Instead they will fall by an estimated 3.2 per cent. In the short term, that will help the balance of payments; in the longer term, however, it will harm exports and consequently the balance of payments, and the fall in imports of equipment and technology will further delay the necessary restructuring and modernisation of industry, further reducing its competitivity.

Aware of the dangers inherent in reduced imports, planners have set a target for 1988 of a 7.3 per cent increase in imports. For the first time, import growth would exceed planned export growth, set at 4.9 per cent. Within that, imports of equipment would rise 12 per cent.

Industrial output next year, according to the draft 1988 plan, should rise 2 per cent. According to Dr Zarko Papic, chief federal planner, many consider that too low; politicians insist that Yugoslavia needs much higher growth, he says, but overlooks the fact that this is impossible. As he sees it, planners have merely substituted realism for wishful thinking.

Any growth in industrial output will, it is hoped, be mainly export oriented. The draft 1988 plan is the first to give export expansion higher priority than raising industrial production.

But increasing export orientation will require a little help, in the form of export credits for example, without which industry cannot compete even if it offers good quality and low prices. The Yugoslav bank for international economic co-operation (the Yugoslav equivalent of ECGD or Exim Bank) has limited resources to support the export drive. So more firms may suffer the fate of the 3rd May shipyard in Rijeka, which lost orders because it could not finance the export of its ships.

As Mr Johan N Gerrard of the Gerrard Management Co, recounted recently: "My company would like to do more business with 3rd May. This year we worked very hard to contract two product carriers for the Norwegian Statoil. Towards the final stages of these negotiations we learned that the Yugoslav export financing of the ships was not available any more. And the business went to a Spanish yard."

While trying to help manufacturers and exporters to compete abroad, the Government will use the available foreign exchange to raise imports, create more competition and break existing monopolies, forcing local producers to raise quality and cut prices.

Imports of consumer goods next year are planned to rise 19 per cent, after an estimated 20 per cent rise this year. But the share of consumer goods in total imports is only 6 per cent.

Austerity measures introduced late last year have depressed domestic consumption, leaving more goods available for export. Industries, including footwear, furniture and textiles were among the first affected and it is hoped that this will galvanise them into export-oriented production.


Goods and rail vehicles assembled at the Goša plant


Ei-NIS, the country's largest TV plant

But the austerity measures also exacerbated unrest in the country's labour force. Strike activity more than doubled, with more than 200,000 workers involved in 1,300 strikes in the first 11 months of the year. Most of the strikes were short, lasting only a few hours or a day or two, but some were longer and more serious with workers demonstrating on the streets in protest not only against management but also against the government measures.

Ostensibly outrageous demands for wage increases of up to 100 per cent have been met, provoking the trade unions to demand inquiries and punishment of those responsible, whether they paid money that was available (in which case they should not have waited for workers to strike) or whether borrowed funds, or diverted resources set aside for other purposes.

The situation would worsen if the legislation on bankruptcies were to be strictly applied. An estimated 25-35 per cent of Yugoslav firms have been making losses and should, according to the law, be closed. But, for obvious political reasons, the law will not be rigidly enforced: no government in the world could allow so many companies to go into liquidation at once, nor allow up to a third of the workforce to join the more than 1m (17 per cent) unemployed.

Moreover, the loss-makers include many utilities – railways, city transport and garbage collection – that cannot be closed. And then there is the problem of defining profitability. When prices are administratively controlled, rather than market-responsive, a stroke of the pen can turn a loss maker into a profitable business; while proposed changes in the tax laws, to tax corporate profits rather than incomes might reveal a different picture of who is doing well and who is not.

So only a few small and medium-sized chronic loss-makers are likely to be liquidated, and these mainly to save money and "to encourage the others".

Aleksandar Lebl

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External debt

Payments need rescheduling

THE DECISION announced this month to seek International Monetary Fund aid to help dig Yugoslavia out of its economic crisis has provided an unpalatable seasonal helping of humble pie for the government of Prime Minister Branko Mikulic.

It was in May 1986, when Mr Mikulic took over for his four-year term, that the IMF's 6½ year monitoring of the Yugoslav economy ended.

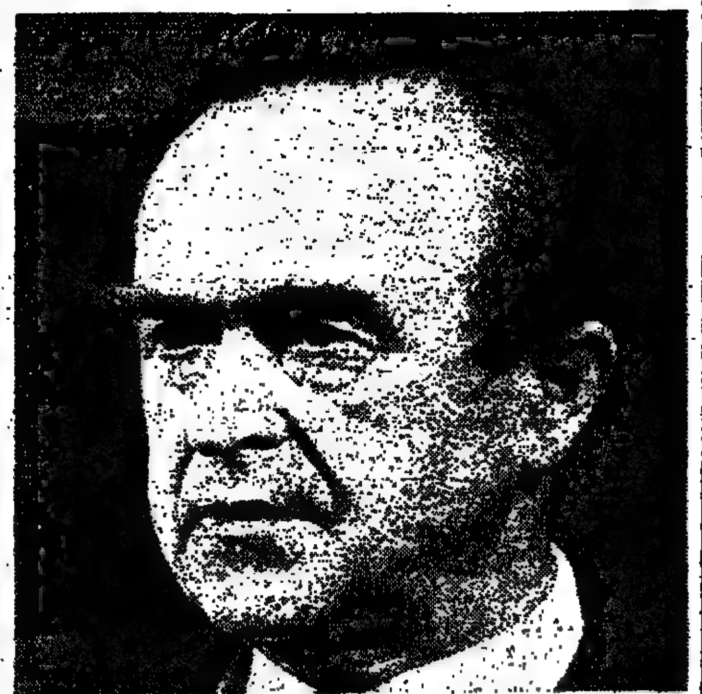
Now the government, faced with soaring inflation, strikes and bankruptcies, and a $17.5bn foreign debt, has agreed again to submit to IMF supervision, barely a year after rejecting this course of action. It is a move which will not be applauded by those who want to see the government moving toward a command economy and away from market orientation.

Officials in Belgrade believe the most likely outcome of the IMF negotiations would be for a $500m standby agreement to be disbursed in the first year and repaid after a one-year grace period over 3 to 5 years. Then an extended fund facility of over $1bn would cover three years, and be repayable over six years, after a three to four year grace period.

The other elements being sought include $600m from the World Bank in 1988, including a structural adjustment loan of $200m to $350m, and $100-$150m of loans for export-oriented projects.

Apart from other loans from sources such as the European Investment Bank, official creditors will be asked to increase their loans slightly to $2bn from $1bn-$1.5bn. Foreign commercial banks, which have been pressing for IMF supervision, will also be asked to provide fresh money in rescheduling talks.

The decision to call in the IMF follows an austerity package agreed last month by the Federal Parliament. This package, annouced to try to stem an inflation rate which the government forecast would othwerwise rise to 220 per cent by January, included drastic increases in the price of many basic goods and services, followed by a general price freeze until the end of next June. Wages and salaries are also under strict controls which would mean they would fall substantially in real terms.



Prime Minister Mikulic: eating humble pie

Yet the package, followed by a 24.6 per cent devaluation of the dinar, was greeted by creditors as hasty and ill-conceived and, internally, by increased strikes. The pressure remained on for supervision by the IMF, rather than the so-called "enhanced monitoring" in effect since May 1986.

The foreign debt problems of the Yugoslavs have been worsened by an over-ambitious repayments schedule this year, which meant that debt servicing was taking 45-50 per cent of the country's foreign exchange earnings and nearly 10 per cent of its gross national product.

The government now says it wants to reduce debt servicing to 25 per cent of export earnings.

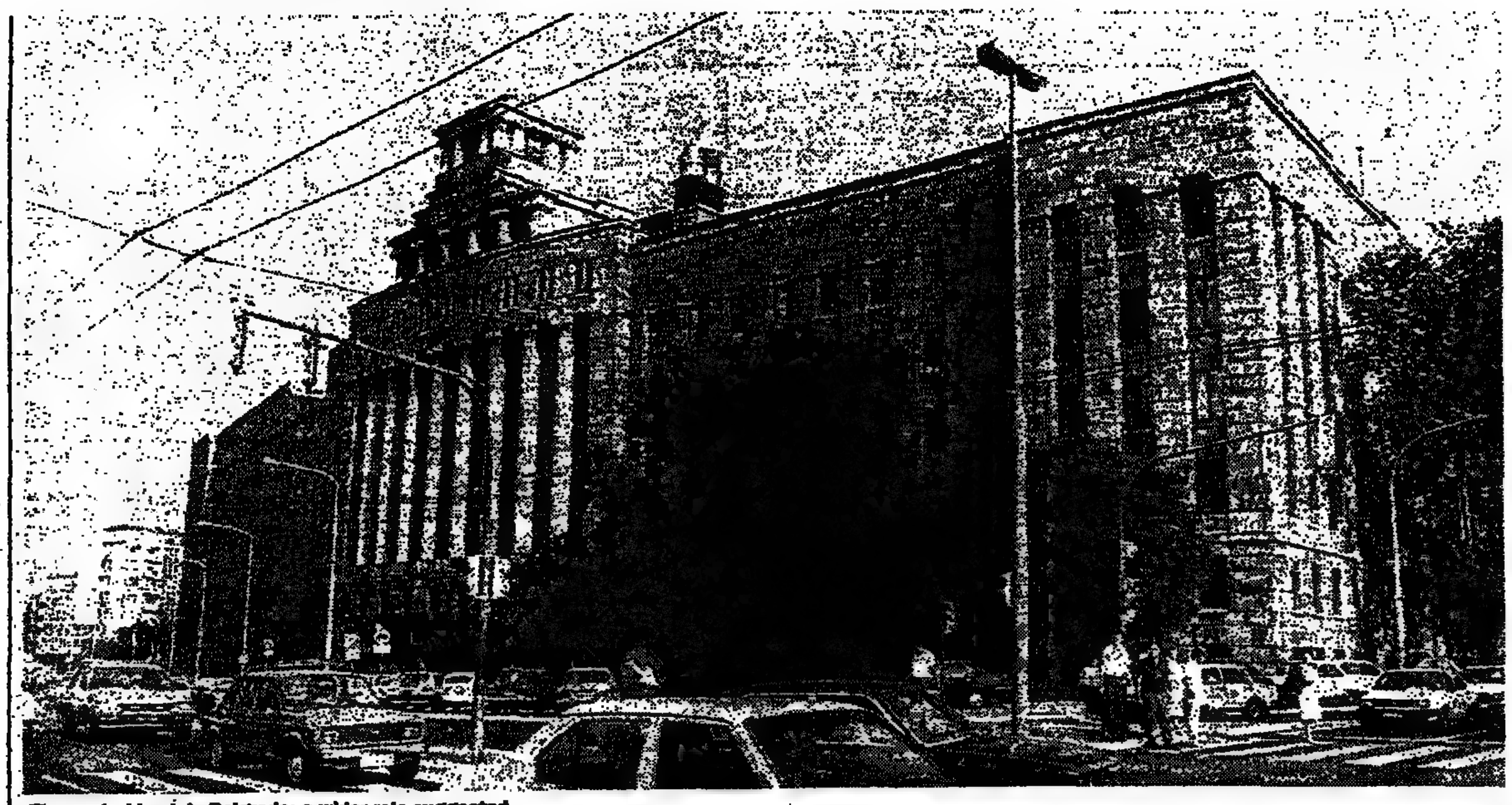
A bunching of repayments meant that some $2bn of interest and more than that in principal fell due this year, but, in the 18 months prior to June when a delay was announced in principal repayments to banks, it had even made some prepayments.

In June and July, it was granted a 90-day extension to two principal repayments of $245m and this was extended in September until the year end. Bank debt accounts for some 70 per cent of the country's total foreign debt and the loans affected by the delay were restructured in a 1983 accord. Loans agreed subsequent to that are still within their grace period.

The prospects for the early part of 1988 are for a series of protracted negotiations. Talks with the IMF are unlikely to be completed before February. Then, government and bank creditors must be accommodated.

Stephen Fidler

Economic problems lead to social tensions in Belgrade



The central bank in Belgrade: a wider role suggested

Banking

Fresh efforts on reform

YUGOSLAV COMMERCIAL banks are not banks in the usual sense. They have been and remain service shops for enterprises.

They are provided for in the 1974 constitution which stipulates that economic enterprises and other organisations may found specialist agencies to look after the conduct of credit and other bank activities, and pool in them the resources required to pursue common interests and fund the performance, expansion and promotion of their activities.

Enterprises founding banks enjoy a special status as shareholders. They manage the banks' business and receive an income from their their activities, after operational costs and allocations to employees have been taken into account.

Hence, Yugoslavia's banks are not independent financial institutions and, as a result, "fundamental principles of banking, and in particular principles of security, profitability and liquidity, have often been sacrificed for the benefit of other objectives," as one large bank put it recently.

The excessive influence of the banks' parent enterprises and of political factors, have, for example, reduced capital flows across regional boundaries, and encouraged non-observance of monetary and credit policy measures, poor scrutiny of investment projects, and irregular or grey money issue.

A growing awareness of the need to reform the banking system, and make it more responsive to market forces has been reinforced by the Agrokomerc scandal. In this instance, a regional bank, the Bihac Basic bank, supported Agrokomerc (the major state food company) financially by guaranteeing its unbacked promissory notes for almost $1bn.

Even so, progress towards reform has been slow. Two years ago, the Government tried to reduce the number of banks, by setting a minimum for assets which banks must hold to be able to continue operating.

At the time, it was thought that about a third of the country's 168 commercial (basic) banks would have to close. Yet none did: the high level of inflation enabled almost all banks to revalue their assets to meet the legal minimum; and political pressure in many localities to maintain "their own" bank intensified. This led to additional resources being scratched together to keep many local banks afloat.

But fresh efforts to reform and enhance the independence of the system are now under way. The latest proposals include enhancing the role of bank managers by making them fully responsible for their operations, a move which, it is hoped, will result in sounder banking practices, better scrutiny of investment projects, more adequate investigation of the creditworthiness of potential borrowers, and greater respect for the law.

Banks which cannot operate profitably under the new conditions will be allowed to go to the wall, a fate which hitherto has been unimaginable. Until recently, Yugoslav law did not provide, even hypothetically, for bank bankruptcy and liquidation. Only when the Bihac Pasic bank collapsed in the wake of the Agrokomerc scandal, were amendments to the Bankruptcy Act hastily introduced..

Bankers insist that, no matter how well the banking reform is formulated, it will not work unless it is part of much wider reform of the economic and political system. They argue that it will only produce results if and when Yugoslavia becomes a market-oriented economy with free flows of merchandise, capital and labour.

It is also being increasingly suggested that the national bank should be given a wider role and supervisory powers over the commercial banks on condition that it does not compete with them as another commercial banker.

The national bank system presently comprises the federal national bank and eight national banks of republics and provinces. Streamlining it to speed up decision-making at the federal level, would mean a higher degree of centralisation but only of policies decided by consensus in the federal parliament. But whether this happens depends, as everything else in Yugoslavia, upon the power relationships among constituent republics and provinces, and also the battle between the reformist and conservative forces.

At present the national bank is little more than a department of the Ministry of Finance. Many feel that it should be more independent of the federal government, that it should be directly accountable to the federal parliament, and that it should responsible for the implementation of monetary, credit and other policies decided by the parliament.

Aleksandar Lebl

Problem of living with inflation nearing 200 per cent

Enterprise struggles uphill

IF THERE'S one glimmer of hope that might eventually emerge from Yugoslavia's crippling economic crisis it is that the small-scale enterprise lobby might be able to exert more pressure on the authorities so that they can be released from the overbearing supervision of the state bureaucracy and run their enterprises as they see fit.

The crisis has been depressing for small-scale private enterprises. While the large, heavily subsidised industries still continue to be bailed out by the Yugoslav authorities, in spite of the bankruptcy law introduced last July, small enterprises receive little such help. They have been fighting a long battle in trying to contain wages at a time when inflation is running at over 160 per cent per annum.

Living with inflation is not easy for a small enterprise employing (on a restricted basis) small numbers of people. In normal free-market conditions employers can make decisions about incomes and salaries.

In Yugoslavia, however, in spite of the apparent flexibility and openness of the system, ideology still wields an enormous influence in the running of the economy, a message which was brought home during an important conference on small private business held in Belgrade between November 9-11.

Mr Majin Rozic, President of the Yugoslav Assembly presented a paper in which he said bolder measures were needed to develop small-scale private enterprises. More importantly, he said that small enterprises were still hampered by what he called "many ideological barriers which equated private enterprises with *speculation and unjustified* accumulation of wealth."

Not afraid of attacking the status quo, Mr Rozic said that "resistance was coming chiefly from people who were afraid of competition and of losing their monopolistic position."

The statistics speak for themselves. According to Mr Rozic, at the present rate of development it would take 25 years for small enterprises to reach the desired 20 per cent share of the country's total economic output.

Last year, the share of the private sector had reached only 5.7 per cent of total production. Mr Rozic also pointed out that in the past five years, the number of privately-owned shops in Yugoslavia had increased by 28 per cent and the number of employees by 36 per cent. *In other* words, some 150,000 owners had taken on another 420,000 workers - *implying the state should be* at least grateful and recognise the potentialities of the small-scale private sector.

Soaring prices dominate cafe talk in Belgrade

"The *private owner* who can employ ten workers at most should be permitted to make room for ten times as many and to become entitled to reduced taxes on net incomes ranging between 80 and 90 per cent," Mr Rozic passionately argued.

Ideology, however is only one problem. Yugoslav enterprises have to face the day-to-day problems of coping with inflation, strikes and endless bureaucratic and administrative measures passed down from above.

The inflation is obviously the most damaging. "No enterprise can make investment decisions because he simply does not know what price raw materials will cost tomorrow or next month," one Yugoslav economist commented.

There is also the persistent problem of limited access to hard currency. With the external debt running at over US$20bn, the Yugoslav authorities have tightened up the banking system with the aim of restricting imports and the flow of hard currency out of the country.

"But there are certain materials we need and there are certain long-term investment projects we have to undertake," a Yugoslav businessman explained. "Under these conditions, with all the restrictions on hard currency and imports, it is very difficult to look ahead."

On top of that, the enterprise manager is limited by his wage fund — a kind of enterprise budget. Once that runs out, which has *frequently* happened over the past year, the manager will either have to surge ahead with production in the hope of generating compensating revenue in order to meet workers' wages or else cut back on the workforce.

The political truth is that the curtailment of inflation is most likely to have a price in terms of *enforced (and even higher)* unemployment, something which the Yugoslav authorities are reluctant to face up to. When Mr Branko Mikulic, the Prime Minister, tried to introduce a partial wage freeze last February this led to widespread strikes.

Meanwhile, unemployment is already hovering around 18 per cent and even reaching 30 per cent in the less- developed regions such as the autonomous province *of Kosovo. Hence* the predicament facing the small-scale enterprises.

"In this situation, wages keep going up with inflation or else we risk strikes, a slow-down in production and a loss in revenue. We have to pay wages to the workforce which take into account the spiralling inflation. *It is a vicious circle. But what is* the choice?" asked an economist from Nin, the Belgrade-based political weekly.

The choices are far from easy. Enterprises can choose between paying the work force more, laying off the work force (and risking strikes) or else declaring the enterprise bankrupt. Judging from figures recently released from the Yugoslav authorities, over 807 enterprises recorded losses of over Dinars 268,400m ($212.67m) during the first six months of this year. They have a six *month reprieve in order* to pull out of the red but under the present economic conditions, only the toughest will survive.

Judy Dempsey

Legislation

Shift of power sought

ALMOST EVERYONE in Yugoslavia agrees that the existing constitution has been an obstacle to economic growth and development.

Many aspects of the 1974 constitution have been criticised, not least the devolution of wide-ranging powers to the six constituent republics and the two autonomous provinces within the republic of Serbia. For the difficulty of reaching a concensus when different national interests conflict, acts as a powerful brake on *decision-making*, especially in the field of economic reform. Many would like to see a substantial return of power and functions to the Federal Government.

Work on constitutional change began a year ago but proposed amendments have yet to be published. For each sentence and word has to be the subject of prolongued haggling as the republics and provinces jealously guard their rights and powers, relying heavily on their right to veto legislation.

Impatient advocates of more federal powers have proposed an all-Yugoslav referendum for controversial issues but the smaller republics show *no sign of giving* the bigger ones, such as Serbia, such an opportunity to impose their will.

So, constitutional changes are likely to be moderate and go in two main directions: economic enterprises would be exposed more to market forces and less to political ones; while the role of the federal Parliament would be strengthened, with the establishment of control and supervising agencies. These would not however, infringe the basic rights of constituent units as defined in the present constitution.

The associated Labour Act and other laws would be amended to prevent further fragmentation of the economy. The rights and functions of companies would be enhanced while those of their component "basic *organisations* of associated labour," would be reduced. Banks would become more independent of the enterprises which established and still control them, and of political influences. Managers would be made directly accountable to workers' collectives.

Changes in the taxation system and policies are to be proposed. But these would remain substantially in the domain of *republics, provinces* and *municipalities*. They would be better concerted and co-ordinated at the federal level.

A shift from indirect to direct personal taxation *is being* proposed and the introduction of family, instead of individual, taxation is being considered. In the field of corporate taxation, an attempt will be made to start taxing corporate profits,rather than income, a major departure from the old philosophy. VAT will be studied with the aim of introducing it at *some future* date.

Foreign trade and foreign exchange restrictions may be eased, for example giving exporters the automatic right to repurchase part of their foreign exchange earnings (dispensing with the old system of retention quotas) and exposing them to exchange *rate* losses.

Legislation in these areas has not been implemented because of foreign exchange shortages. Most of the time, article 110 of the Foreign Exchange Act, setting payment priorities, has been applied. It was meant as a temporary solution but, in Yugoslavia, nothing is as permanent as *temporary solutions.*

The Government has high hopes that its proposed joint venture legislation will attract more foreign investment. The plan is that the law should not try to regulate everything but leave most things to a contractual partner, i.e. Yugoslav companies and foreign persons investing money in them. Provided they sign a seven-year contract and that the foreign equity *is at least a quarter of the total,* the joint venture would not pay import duties and other levies on equipment.

It would be entitled to its own foreign exchange banking account and to an account abroad, which Yugoslav companies are not permitted. The foreign partner would have more rights in management and could repatriate profits and capital *after winding-up operations.*

A constitutional amendment will enable foreign investors to establish either their wholly-owned companies or joint ventures with Yugoslav companies in industrial zones on Yugoslav soil.

Of course, legislation alone cannot bring foreign investors *flocking* to Yugoslavia. They will *also* be looking at the overall political and economic situation. At the moment the prospects are bleak.

Aleksandar Lebl

Consensus is difficult to achieve when the national interests of six republics and two autonomous provinces act as a brake on making economic decisions

Important role of invisible earnings

Wider options

THE YUGOSLAV hard currency trade balance has been improving but it will not show a surplus for some time to come. Invisible earnings will therefore continue to play an important role in creating a current account surplus which should enable the country to service its debt, to finance imports needed to keep industrial production — especially export-oriented — going and growing, and to increase imports of new technology for the modernisation and restructuring of the economy.

The latest available data on the current account, for the January-August period of 1987, show that against a deficit in hard currency merchandise exchange of $805m ($1,541m in 1986), and in interest payments *of $906m ($1,108m)*, there was a surplus in invisibles of $1,421m ($1,532m). Of that, services brought a net $1,672m ($1,589m), and private transfers a net $657m ($913m).

As far as workers' remittances are concerned, the Governement's aim is to do all it can to increase them. *It has however* been criticised for being clumsy in doing so. The switch from interest paid in foreign currency to interest paid in dinars for workers who return, the way of calculating interest rates on the basis of rates abroad, and limits on the amount of cash that may be withdrawn - all have had negative effects.

Added to that have been rumours, consistently denied, that the Government intends turning foreign currency into dinar accounts, and, this coupled with poor service in some Yugoslav banks, has contributed to slowing down remittances. Workers who come home for holidays bring part of their savings in cash and sell it on the black market.

The Government intends to increase incentives for Yugoslavs abroad to keep their savings in banks at home and to invest them in their country. It is estimated that Yugoslav who live outside the country keep some $20bn or more in foreign banks, but half that much seems to be a more realistic figure.

These investors will be offered various options including investing in existing firms, funding their own businesses, buying apartments, or buying government bonds. Whether that will produce expected results remains to be seen.

Aleksandar Lebl

Doing deals

ENERGOPROJEKT, the Belgrade-based consulting and contracting company, has been experimenting with countertrade in countries with payment difficulties. Other Yugoslav contractors may follow suit.

Energoprojekt is Yugoslavia's leading consultancy and contracting company. It accounts for 60 per cent of exports of consultancy and design services, and 15 per cent of aggregate contracting business abroad. Its exports have fallen to some $200m-250m per year, from $300m-350m in the early Eighties, when many less-developed countries had international funds at their disposal.

These have largely dried up and Energoprojekt faces stiff competition from developed countries whose companies can offer soft loans mixed with commercial loans, and can even finance local costs. This Energoprojekt cannot do: its bank, and the Yugoslav Bank for International Economic Cooperation have not enough resources for that type of financing.

***So,* Energoprojekt has turned to countertrade, taking payment in oil, raw and semi-finished materials and other goods either for the Yugoslav markets or reexports. It takes Malaysian rubber, tin, palm oil and spices, Ugandan coffee and cotton, Arab oil, Peruvian fishmeal and iron ore.**

Energoprojekt does not have its own trading company but uses the services of specialised Yugoslav trading companies. Similar arrangements are being made with the Soviet Union, where Energoprojekt has several projects.

Over the past 5 to 6 years, the company's deals have increased steadily and now account for 20 per cent of all business, the rest being financed by international financial institutions(15 per cent), Yugoslav banks (25 to 30 per cent),and Energoprojekt's own resources and investor's money.

Not surprisingly, Energoprojekt is lobbying for an international agreement to put all contractors in the same position as far as loan conditions are concerned. But no one is holding his breath.

A.L.

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ARTS

The Photographers' Gallery/William Packer

Images to make a point

There is photography, and photography, which nice distinction the Photographers' Gallery has always drawn from the start. Whatever else it did the invention of the camera, far from killing off painting and drawing as was first feared, served merely to put another useful tool into the artist's hand. Artists were quick on the uptake, and the subsequent history of photography is to be read as much by their response to it as by any technological advance.

The technicalities of the medium apart, photography is a discipline of the eye and, *through the eye, of the mind*. The photographer has only to fix upon and organise his material through the medium of his lens: the choice is entirely his and, if he is also an artist, he will achieve a work of art, whether for himself or a client.

Two exhibitions now at the Photographers' Gallery, at 5–8 Great Newport Street, WC2, address themselves to contemporary British work at each of these practical extremes. *Mysterious Coincidences*, in the Bill Brandt Room (until January 16, then on extensive international tour: sponsored by W. Haking Enterprises of Hong Kong), is announced as an exhibition of New British Colour Photography. Certainly it is all these things, but it is as photography that it requires amplification beyond the "significant developments" suggested by the blurb.

Any such developments may be significant or not, but what is *more interesting is that all this* work is applied one way or another beyond photography itself, into areas of more general creative concern. These may be both practical and expressive, and *here* they range from the sculptural and the ironical to literary, social and political comment. That any one of the nine contributions that comprise the show *must then stand or fall on* its own merits is neither here nor there.

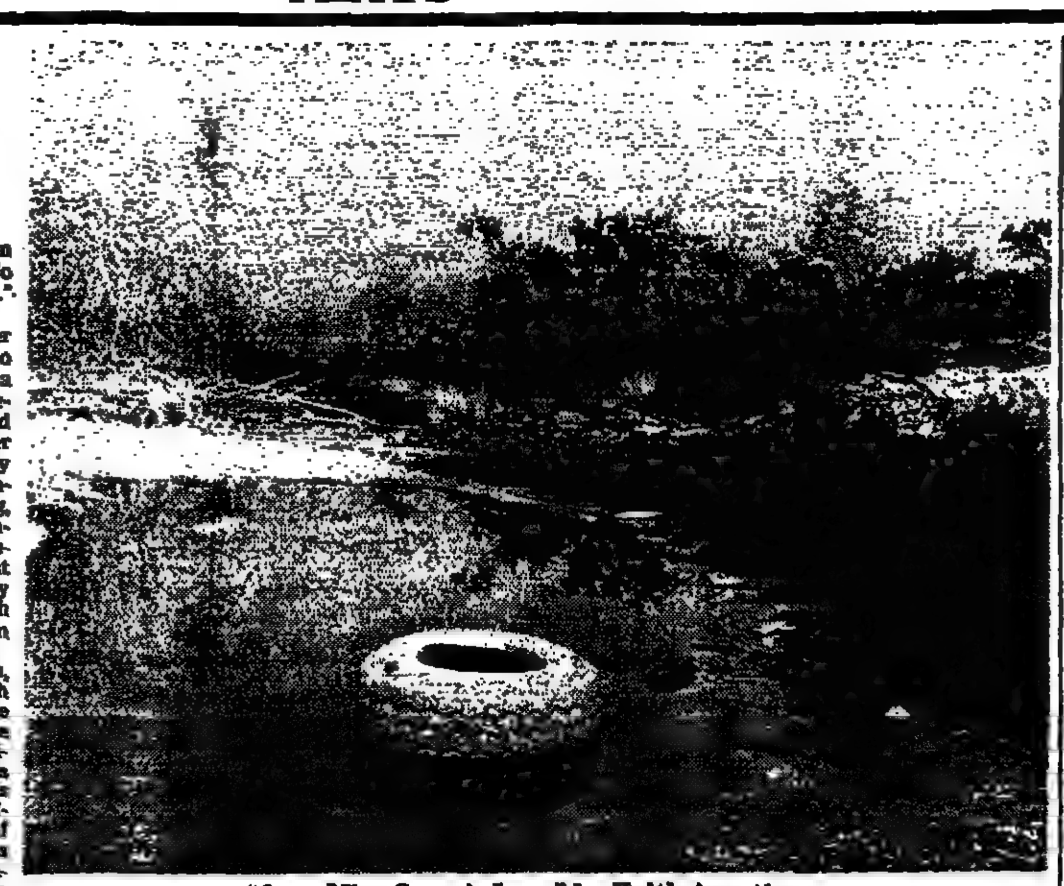
By any technical measure the work is admirably sufficient, immaculately printed and presented – if at times a shade self-consciously so – with everything in hand to command the desired result. But it is at the level of overt comment that it shows *itself at its* weakest. *For text and* polemic too easily can be isolated, read for themselves, argued and laid aside to the fatal detriment of any formal integrity that the work itself may possess.

The more ironical, po-faced or oblique the better, and here Paul Graham's essay upon the present face of Northern Ireland, "A Troubled Land," is infinitely to be preferred to the portentous theatricals of Tabrizian and Golding in their large triptych "The Blues." The one simply gives us a disturbingly familiar landscape of country roads, distant hills and standard suburbs, with only the chance *figure* of a soldier, or the circumstantial detail of a poster *or* graffito, disturbing its complacency. The other treats us to three beautifully contrived and potentially ambiguous encounters between individuals informed, unfortunately, by words that are false *where they are not inane.* "You are rich because you are white: you are white because you are rich," runs one profundity: "...still a head hangs neither in nor out," concludes another: "No *look* held their space together ..." Their words fail them.

They are not alone, for Olivier Richon, having managed to reduce his surreal still lifes to a *degree of neo-classical refinement* that is both tantalising and intriguing, reduces them further into arch and obscure triviality by his chosen texts. The meaning, or rather the non-meaning, of images is what appears to concern him, for their very obscurity, we learn, is their point: but he rather spoils their joke by explaining it. His images are rich enough themselves to sustain interest.

The construction of a tableau, no *matter* how elaborate, which becomes in its photograph the residual work of art, is not the problem; and indeed some manifestly successful examples of this approach are included in this show. Tim Head's micro-landscapes, that might be surfaces of *other* planets, are as effective as they are witty – an exact relation for his "Toxic Lagoon," on which float such lurid, doubtful edibles, needs nothing more than its name to tell us so. His "Biological Landscape" is but a soap powder moonscape bestrewn with pills; his "Alien Landscape" only plastic wrapping and savoury crisps. Boyd Webb's more extravagantly cosmic and surreal confections have no names at all.

Keith Arnatt's sequence of intimate landscapes, "from Miss Grace's Lane," is also exemplary *in allowing the particular image* to make its own ironical point. A scrubby, derelict landscape of marsh, hedgerow, bank and undergrowth is picked out and given its scale by the miscellaneous rubbish it so curiously celebrates. A bright green can sits among the foxgloves on the clay slope; a tyre floats in pool in a winter landscape for all the *world like a Millais sunset, or* "February Fill-Dyke" by Benjamin Leader.



"from Miss Grace's Lane" by Keith Arnatt

★

Stages, the other current exhibition (in the Tom Hopkinson Room two doors away, until January 23), is by no means so ambitious in scope, yet it presents the nicest complement. The work of seven advertising and commercial photographers, who presumably would follow Dr Johnson in never working but for money, shows clearly that such self-denial need not preclude true art.

The discipline is perhaps tighter, and there is always a brief and a text to work to, enlivening and informing with wit and imagination. Here we have images before and after – being established, variations worked, final superimpositions made and, we hope, clients satisfied. With *the best of it, as with the best of* any kind of applied photography, we discover work which needs no special plea. Divested of its immediate commercial context and rationale, it stands fully established and resolved on its own visual terms. Jess Koppel is a consummate photographer – that is to say an artist – of still life; and Frank Herholdt's work for Amtico tiles has a formal authority that takes it far beyond any purely functional requirement.

Die Gezeichneten/Duesseldorf

Andrew Clark

The problem with Franz Schreker is that his music offers far more glimpses of other composers' personalities than it does of his own. That is certainly true of *Die Gezeichneten (The Branded)*, which the Deutsche Oper am Rhein has just treated to a brilliant staging in Duesseldorf. The material seems to consist of an endless and aimless stringing together of notes, its vapidity camouflaged by snatches of sweet melody and some very expert orchestration. But it is the lurid subject matter, as popular in the 1920s as it was despised by the Nazis, that provides such fascinating insight into artistic fashions of the day. Were Klemperer, Bruno Walter and Erich Kleiber really taken in?

Today, Schreker's concoction of Freud and Wagner, Jugendstil and Symbolism, fairy tale naiveté and potboiling artistic drama is either *anachronistic* or unintelligible. Yet the Schreker revival continues. *Irrelohe, Das Spielwerk* and *Der Schmid von Ghent* have been staged in recent seasons, and *Die Gezeichneten* was heard in a concert performance at the 1984 Salzburg Festival. As Germany tries to reclaim the corners of its forgotten past, Schreker makes for a very plausible novelty, especially in a repertory system that suffers from exhaustive repetition. All stage directors suffering from produceritis should put on a strict diet of operas such as these.

The Duesseldorf production was a very good example of how to go about such a revival. Treading the same path as in his staging of Korngold's *Die tote Stadt* last year, Gunter Kramer offered a radical re interpretation – picking out references that correspond to Schreker's life and times, and animating the drama with modern theatre techniques. The central figure of Alviano, a sensitive ugly aristocrat, was depicted as a hobbling fat German Jew, an outcast whose *emotional* and *material* good faith is heartlessly exploited by society (Schreker himself was half Jewish). Tamare and Count Adorno were a pair of libidinous Fascist guards, Carlotta a naive and shallow artist in need of sexual liberation.

Xenia Hausner's decor made a feature of a stage-wide set of Venetian blinds, which gave both cast and audience various opportunities for voyeurism, while also providing a novel and very practical alternative to the drop curtain. Striking visual and dramatic contrasts were constantly being explored, but never to excess. In short, Kramer actually succeeded in making a viable evening's theatre from the work.

The large cast and chorus gave performances of admirable skill. The Tamare, Sigmund Cowan, had the looks and confidence of Klaus Maria Brandauer, with a virile baritone voice. The Alviano was William Cochran, who makes up in heldentenor stamina for what he lacks in beauty of timbre. Carlotta was treated to a tough performance from Trudeliese Schmidt, vocally sumptuous and outstanding in depth and range of character.

Thanks to Schmidt and Cochran, the long duet at the end of *Act one* – in which Carlotta and Alviano discover their love but are unable to express it – emerged as a finely graded and involving scene, the best of the evening. Crowning these achievements was the superb orchestral performance under Hans Wallat, who opened up the Mediterranean warmth of the score.

Pinocchio/Watford Palace

Michael Coveney

The Adventures of Pinocchio is the daytime Christmas show at the Watford Palace, where *The Cat and the Canary* continues *in the evenings*. Adapted and staged by Lou Stein, it has some fine new music and lyrics by Monty Norman, composer of two remarkable British musicals of the late 1950s, *Expresso Bongo* and *Irma La Douce*.

If they seem a long time ago, Mr Norman has opened another couple of gaps since *Songbook* (1979), his and Julian More's witty and undervalued uppercut to the chin of compilation cabarets on the likes of Coward, Porter and Sondheim, and *Poppy* (1982), his pantomime with Peter Nichols on the Chinese opium wars. In short, it is good to have him back in business, and high time.

His songs here are simple but not saccharine, charming but not childish. They fit the story well, and of course it is a very good story. Mr Stein faithfully follows Carlo Collodi's book, rather than the Disney film. One senses fidelity *has* gone *too* far in the first half, with sequences in Gepetto's cottage and the Red Crab Inn that border on the tedious.

But the encounters with the puppet show, the assassins, the fox and the cat and the shark (christened Attila) are all well done. The story line is shared between a vaguely dotty Blue Fairy (Cheryl Kennedy) and Pinocchio himself, who slips readily into third person narrator even while tumbling through the rippling blue silk ocean manipulated by two crouching downstage water sprites (the oldest scenic tricks are often the best).

At my morning matinee, Pinocchio was energetically played and powerfully sung by Damien Walker (he shares the role with Grant Olding). The long-nosed half mask is no barrier to us understanding the momentous decisions he takes when faced with temptation. He climbs on the carriage to Playland and befriends Lampwick (Joe Geary). Their Bottom-like transformation to donkeys is the subject of a punchy duet, "Oh Hee-Haw."

This last quarter of the show is *particularly strong, with an* affecting death scene for Lampwick and a reunion with Gepetto (Ric Morgan, who doubles neatly as the swanky fox) in a gaping red silk shark's throat. The puppet's graduation to full humanity is signalled in "Im a Boy," a foot-stomping, clap-along finale.

The designs by Norman Coates are most successful when they *escape one-dimensional interiors.* The field of miracles, for instance, where Pinocchio foolishly plants his money, is a simple vista with a standing row of yellow corn. The musical direction by Stewart Mackintosh, leading a five-piece band, is sensitively expert.

Townspeople, guards and talkative tunas are all played by a *gaggle of eager schoolchildren,* professionally reinforced in the higher ranks by the dapper Ashley Knight and the literally gigantic Colin Fay.

Ric Morgan, Ashley Knight, Damian Walker and Cheryl Kennedy

Aladdin/Richmond Theatre

Claire Armitstead

There is something faintly unnerving about finding oneself sitting in a commercial pantomime surrounded on all sides by Samaritans, perhaps because it doesn't happen every day. The good people of Putney and Richmond, accompanied by no less a person than Chad Varah, poured into the beautiful Richmond Theatre by the charabanc-load for their gala evening of *Aladdin*; and the good people of Pekin restrained themselves admirably from slipping too many jokes about telephones into the ad libs. If they noticed a certain froideur in the reception of gags about skin colour and sexual orientation they ploughed on regardless with a show which displayed a traditional disregard for those of delicate sensibilities.

The result was a house slow to warm to an entertainment slow to pull its best acts out of the party hat: a warbling duet by Anita Dobson and Janet Ellis of the inevitable EastEnders spin-off "Anyone can fall in love" seemed a desperation measure after a joke about Neil Kinnock winning the next election died an ignominious death, despite the best efforts of David Morton's expansively up-front Widow Twankey to revive it.

It took the second act to justify Dobson's billing as anything more than a pretty face and a high profile; but once she found her stride she turned a fetching principal boy (albeit one whose cockney vowels soared westward over the Atlantic as soon as she opened her mouth to sing: the Albert Square gang would be amazed.)

The perils of slotting any old celebrity into pantomime were in evidence in Janet Ellis's stodgy princess, who seemed to have mistaken white China for Blue Peter, and the Chinese policeman played by former Olympic swimmer Duncan Goodhew as one half of the obligatory comic duo. Despite a pate that seemed to become more shiny with every thump administered to it, Goodhew's timing is not sharp, nor his technique advanced, enough to take his share of the comedy from the shoulders of his overworked partner Simon Groom.

If it is the big names who bring the crowds in, it is the seasoned troupers who carry the show – notably Anna Dawson's scrumptious genie, an Abanazer, from Gareth Marks who rears to life like a dancing bearskin hunting trophy, and an Emperor from John Boulter who has clearly invested an imperial mint in singing lessons. The speciality act of Du-Marte et Denzar's dancing skeletons made a welcome *relief from* the mini-kimono'd go-go girls of Pekin market in a show, directed and choreographed by Roger Hannah, which doubtless sent the Samaritans and their samariteenies home with several TV theme tunes on the brain.

Sleeping Beauty/Everyman, Cheltenham

B.A. Young

In one way at least this is a very unusual pantomime. A new book and lyrics have been written by the director, John Doyle, who is the theatre's artistic director, and the music is also new, specially commissioned from Catherine Jayes. One indispensable feature has been retained: there are endless chances for the children to shout, and on the night of my visit they shouted like football fans, only more inventively.

The story is dramatically a teaser; if you stick even approximately to the accepted story, your heroine is asleep most of the time. Mr Doyle has an easy way out. His first scene begins with the descent of a UFO into the King's courtyard (designer, Chris Crosswell). From the UFO steps a Prince (Robert Beach, a male prince, another novelty), and he has a portable time-machine; so Mr Doyle can bring the vital kiss forward to end his first act, and set his second act in some vague future, where there are no references to TV commercials, and only one to a politician, and this only dragged in for a rhyme, a false rhyme at that.

As I wrote about another show, acting is not very important in pantomime, and there are no Gielguds or Ashcrofts here. Establish who you are, make sure your jokes are heard, be pretty if you are a girl or a young man or funny if you are anything else, and there you have it, and there they have it at the Everyman with a minor exception. The witch (Colin Wakefield), named here Fairy Nasty, is so keenly greeted with boos and hisses that her voice, produced through an echo, is not easy to hear. There was never any question about her motives, though.

Caroline Mander is the Beauty, who dutifully pricks her finger on the spinning wheel. The fairies are called Fairy Cake, Fairy Liquid, Fairy Lights and Fairy Snow, but the most individual of them is Fairly, not Fairy, Naff, because she is still a learner, and wears an L to show it. She gives a happy comic performance and deserves her ultimate alliance with her mate Simple Simon (Paul Milton, who is also choreographer, and does rather well). The decor is unambitious, there are no grand transformation scenes, but the stage is always a pleasure to see when it should be, and coldly uncharming when, in the future, it presents Miss Shape's Gym.

Full marks to the Everyman for novelty.

Philharmonia/Festival Hall

Andrew Clements

Something traumatic appears to have overtaken the Philharmonia Orchestra. It is not for me to speculate on what that misfortune might have been, but on the evidence of Friday's concert of Schumann, conducted by Carlo Maria Giulini, the orchestra is ending the year at a depressingly low ebb. All the qualities which go to make up a first-class orchestra (and which this one continued to display until very recently) have evaporated. Ensemble is ragged, intonation uncertain, balance and tone uneven. It would have been impossible to recognise Friday's performance as coming from the same source as those produced barely a year ago for conductors such as Haitink and Rattle.

The current limitations were painfully exposed in the *Manfred* Overture. Giulini's approach is by no means theatrical but languourous and perhaps potentially seductive, and predicated above all on a string section that can sustain a phrase and simulate a decent cantabile; the Philharmonia at present seems capable of neither. Every exposed melodic line or chord became a potential pitfall, and few of them were negotiated with conviction. Giulini offered little in the way of positive direction and the lack of impulsion and steadiness was carried over into the accompaniment to the Piano Concerto. Radu Lupu is incapable of presenting the solo part without sensitivity, but even he seemed reduced to routine in these circumstances. There was a *minimum of* sparkle, less sense of involvement.

The standard of orchestral playing picked up somewhat after the interval, but whatever could have been redeemed by a buoyant account of the Rhenish Symphony was denied in the opening moments of the work. Giulini launched it as if nudging some vast Brucknerian edifice *into motion, instead of springing* one of the most exhilarating of symphonic opening themes. The over-deliberation – with further broadening for the second subject – cost more than physical impact: the movement's connective tissue was absurdly emphasised, the subsidiary detail undifferentiated, and the movement disintegrated into a sequence of unconnected *moments. Only the* second slow movement was matched to the grandiloquence of Giulini's approach; lacking altogether any sense of rhythmic imagination, the symphony turned into a very dogged experience indeed.

BBC Symphony/Albert Hall

David Murray

When Andrew Davis is conducting with *his* customary keenness and terpsichorean enthusiasm, complaints seem hard. Luckily there were no very grave ones to make on Sunday, though his Technicolor programme with the BBC Symphony – Debussy, Ravel and Respighi – had no outstanding merits either. Of Debussy's three *Nocturnes*, "Nuages" was cool and careful (or perhaps *just literal-minded*: one couldn't be sure), instruments not well blended; "Fetes" fast, the march excellently led until Davis let the percussion swallow up the return of the main theme; "Sirenes" (the BBC female chorus) *mellifluous*, casual about small niceties.

There are no niceties in Respighi's *Pines of Rome*, but the Villa Borghese movement had real verve, and the recorded nightingale for the Janiculum was lovely. The Appian Way march-finale made an enormous noise: even on very old 78s one used *to hear more brightening* detail. In any case Respighi's monster crescendo is not flattered by proximity to the infinitely cleverer "Fetes."

Ravel's *Daphnis et Chloe* was a curate's egg with the courage of its dubious convictions. Davis made it so effective as a dance-piece – a side of it often lost in would-be searching perfor*mances – that his own podium* choreography seemed superfluous. There was grace and feeling in both the solo numbers for the lovers, and the whole pirate tableau was excitingly driven forward. Elsewhere, hyper-speedy tempi often left his players able to do no more than snatch at the notes (not only in the "Danse generale," but even in the flute "Pantomime" and the daybreak-scene): thrills bought that way *are* cheap. The BBC first-desk playing was strangely variable, from impeccably sensitive to stiff and downright inept.

Suzanne Vega/Hammersmith

Antony Thorncroft

Suzanne Vega has been on the road for eight months and on the eve of her departure home to New York she played yet another Hammersmith Odeon date. What a change since her last appearance there in the spring. Then she seemed a lonely, vulnerable figure, peeping out *nervously* from behind a guitar. Now she is an up front madam, dressed by Vogue and backed by a rock band.

Yet the atmosphere is very similar. Audience reverential; singer whimsical, yet oddly secure; songs, well, the same bunch of limpid, veering towards the limp, reflections of growing up in New York, back bedroom images of boys, and characters, and ideals that she doubtless shares with millions of *nice* middle class girls.

It is almost voyeuristic observing Suzanne Vega's mosaic, delivered in a soft mesmeric voice, backed by similarly hypnotic tunes that hardly stretch her guitarist fingers but build up an intensity redolent of an Indian raga or an African drum. She opened unaccompanied with "Tom's Diner," and as her quavery voice *took off the raucous* audience, still drifting in from the bar, fell silent, as if in the presence of death. Then on with the guitar and into her small repertoire, with the obligatory solo spot when, it must be admitted, you hardly noticed the loss of the band.

Sometimes her gushing naturalness leads her into tedious introductions of songs which hardly justify a word of explanation, but then she pulls herself together and throws off a tangible hit like "Luka" or the kind of *nostalgic love song like* "Gypsy" which not even Joni Mitchell could better. Suzanne Vega hits a chord which has not really been touched since such seventies singers as *Mitchell, Janis Ian,* Melanie, *etc* were all the rage, yet with songs like "Marlene on the wall," held back for the encore, she somehow manages to *escape from the embroidered* smock image into high art.

Arts Guide

December 18-24

Opera and Ballet

LONDON

Royal Opera (Covent Garden). The company's festive-season show is a revival of L'Elisir d'Amore, with Yvonne Kenny, Denes Gulyas, Enzo Dara and Gino Quillico, conductor Gabriele Ferro.

English National Opera (Coliseum). The much-awaited production by David Pountney of Humperdinck's Hansel and Gretel is conducted by Mark Elder. Ethna Robinson and Cathryn Pope take the title roles, with Norman Bailey as father and Felicity Palmer doubling as mother and witch. The most important saving grace of the limp, unfunny new production of the Barber *of Seville by Jonathan Miller is* the Rosina of Della Jones, a classic impersonation sung with formidable Rossinian virtuosity.

PARIS

Lyons Opera Ballet and Maguy Marin's company (Theatre de la *Ville*). *The* Seven Deadly Sins in Berthold Brecht's and Kurt Weill's Black Universe Searching for Peace (42 74 22 77).

Rudolf Nureyev's production of Tchaikovsky's Nutcracker (Paris Opera). The choreography reveals childhood's fantasies as well as fears beneath the usually sugar-coated fairy tale. *Monique Loudieres,* Claude de Vulpian, Elisabeth Maurin, Fabienne Cerutti alternate as Clara, while Charles Jude, Rudolf Nureyev, Jean-Yves Lormeau and Laurent Hilaire dance in turn in the role of Drosselmeyer. (47 42 57 50)

WEST GERMANY

Berlin (Deutsche Oper). Der Freischnetz, produced by Johannes Schaaf, will have its premiere this week. The cast *incudes Stella Kleindienst*, Daniela Bechly, Rene Kollo and Hartmut Welker. Hansel und Gretel has fine interpretations by Janis Martin, Barbara Scherler and Schwanensee, choreographed by Kenneth McMillan round off the week.

Hamburg (Staatsoper). La Clemenza di Tito has a strong cast with Judith Beckmann, *Hildegard Hartwig, Werner Hollweg* and Harald Stamm. Also a Harald Stamm lieder recital, accompanied at the piano by Wilhelm von Grunelius with songs by Schumann, Schubert, Ibert and Liszt. Daphnis und Cloe/Der Feuerfeugel are again added to the programme.

Cologne (Opera). Hansel und Gretel has Andrea Andonian and Teresa Ringholz in the main parts, Hellen Kwon repeats her much-praised Queen of the Night in the Magic Flute. There will also be the premiere of "Die Italienerin in Algier" produced by Michael Hampe. The cast is led by Ferruccio Furlanetto, Teresa Ringholz, Doris Soffel and conducted by Ralf Weikert.

Frankfurt (Opera). Falstaff is steered to triumph by Luis Quilico, brilliant in the title role. Cosi Fan Tutte with a new cast led by Margaret Marshall, Barianne Rorholm, Michal Shamir and Carlos Krause. Gluck's Iphigenie in Aulis, Iphigenie auf Tauris are offered in a concert version with Clarry Bartha, Marjana Lipovsek, John Brocheler and Le Nozze di Figaro is revived with Edith Mathis, Barbara Bonney, Ilse Gramatzki and Gilles Cachmaille.

Munich (Bayerische Staatsoper). La Forza del Destino is Gotz Friedrich's production brings Julia Varady, Judith Forst and Wolfgang Brendel together. Die Frau ohne Schatten stars Mechtild Gessendorf, Brigitte Fassbaender, Angela Maria Blasi and Bernd Weikl. Hansel und Gretel is respectable with Helga Dernesch, Helena Jungwirth and Florian Cerney

ITALY

Milan (Teatro alla *Scala*). Impressive but lugubrious production of Don Giovanni by Giorgio Strehler, performed in the semi-darkness of Ezio Frigerio's tasteful sets. Riccardo Muti conducts a fine cast, led by English baritone Thomas Allen (alternating with Jose van Dam), Edita Gruberova (alternating with Cheryl Studer), Ann Murray, Suzanne Mentzer, Claudio Desderi and Natale de Carolis. Rudolf Nureyev's Nutcracker with scenery and costumes by Nicholas Georgiadis, with *Anita Magyari* and Charles Jude. (80 91 26)

Rome (Teatro dell'Opera). Faust directed by Luca Bonconi and conducted by Gianfranco Masini with scenery and costumes by Pierluigi Pizzi with Ruggero Raimondi, Carol Vanes and Jean Dupoy. Also Alicia Alonso's Ballet Nacional de Cuba. (46 17 55).

Turin (Teatro Regio). Quartetto con Maschera Rossa. A new ballet by Jean-Luc Lequay, with scenery and costumes by Eugenio Guglielminetti, danced by the Regio Company, with five guest performers. Don Giovanni, with Renato Bruson singing the title role (his first performance of a Mozart role in Italy). Daniela Dessi as Donn'Elvira, Eugenia Moldoveanu as Donn'Anna, and Stafford Dean as Leporello. (58 80 00).

Bologna (Teatro Communale). Falstaff in co-production with the Teatre de la Monnaie in Brussels, conducted by Riccardo Chailly and directed by Luis Pasqual. The cast includes Paolo Coni, Juan Pons, Martha Senn, Daniela Dessi, Mariella Devia and Carmen Gonzales. (52 99 99)

NEW YORK

Metropolitan Opera (Opera House). Les Contes d'Hoffman, in Otto Schenk's production conducted by Charles Dutoit, features Gwendolyn Bradley, Roberta Alexander, Neil Schicoff and James Morris. Manuel Rosenthal conducts Die Fledermaus in Otto Schenk's production, with Barbara Daniels, Judith Blegen, Tatiana Troyanos and David Rendall. Fabrizio Melano's new production of *Il Trovatore* is conducted by Richard Bonynge; with Joan Sutherland, Fiorenza Cossotto and Luciano Pavarotti; Franco Zeffirelli's production of Tosca is conducted by Christian Badea with Eva Marton, Sherrill Milnes and Italo Tajo. Lincoln Center (362 6000)

New York City Ballet (New York State Theatre). Nikolais and Louis. Two choreographers with their own companies, Alwin Nikolais and Murray Louis, team up for a five-week season featuring seven programmes, including a number of premieres. Ends Jan 17.

WASHINGTON

Washington Opera (Eisenhower). The season continues with the little performed L'Amico Fritz by Mascagni in repertory with Ruddigore. Kennedy Center (254 3670)

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Brazil's lost credibility

ONE should spare a thought this Christmas for the Finance Ministers of the Third World debtors. The difficulties of trying to serve two masters - satisfy the international financial community and accomodate the domestic sensitivies of their own governments and parties - has been underlined yet again by the case of Brazil.

Mr. Luiz Carlos Bresser Pereira, the Brazilian Finance Minister, resigned last week when it became clear that his proposals to raise taxes and cut public spending would be watered down so drastically as to be a self-defeating exercise in the fight against inflation. Resignation was the only honourable route left open after President Sarney had diluted every single initiative since he took the job in April.

Yet if Mr. Bresser's plight deserves a measure of sympathy, his departure is disturbing. President Sarney has now used up three Finance Ministers in under three years and exhausted all credibility as a responsible leader in economic matters. He has consistently promised to cut public sector expenditure but has proved both unwilling and unable to contain its growth. In so doing he has exacerbated a chronic problem that is perhaps more pernicious in the long term than Brazil's foreign debt – the burgeoning state deficit.

Mr. Bresser offered at least the hope of better relations with Brazil's international creditors and a return to sounder financial discipline. He was largely responsible for renewing a dialogue with the commercial banks after interest on medium and long term debt was suspended in February, and despite considerable handicaps was trying to rein in President Sarney's use of the state budget as a means of political patronage. Of equal importance, in his now aborted plans, he was proposing to make a much needed readjustment of the tax system so that the rich shoulder more of the burden in one of the developing countries with the greatest inequalities of income.

The political calendar in Brazil is such that direct elections to the presidency will probably be held in November 1988, although President Sarney himself is doing his best to prolong his non-elected tenure. Increasingly viewed within Brazil as a lame duck, it is going to be hard for him to persuade anyone with authority to assume the Finance portfolio; or indeed for President Sarney to retain the backing of the PMDB, the largest political party, which obliged him to appoint Mr. Bresser in the first place.

Sick giant

Brazil has become the sick giant of the continent, squandering its potential and alienating friends and admirers, who have been willing to make allowances for the constitutional and institutional vacuum created by the transition in 1985 from military to civilian rule. Of course, President Sarney is operating under considerable political constraints. He has to accomodate the political interests of the various state governments, the business community and the military, and he has to placate the vast mass of Brazil's underprivileged society at a time of recession. But these are not constraints exclusive to Brazil; nor is the phenomenon of a large public sector deficit, a protected economy and high inflation. In varying degrees the situation is similar among most of the Latin debtors.

Until now all the advice offered to Brazil has amounted to whistling in the wind. In any case, foreigners have little leverage, since Brazil has already made the external adjustment to the disappearance of the capital inflow. The Brazilian sickness is manifestly internal. The disappearance of three finance ministers in succession shows that the measures known to be essential to any competent official are outside the realm of practical politics. So long as the condition persists, the rest of the world can only wait and hope.

The polarisation of Belgium

BELGIUM is spending Christmas under a caretaker government, and with no quick solution to its political crisis in sight. The general election on December 13, held two years early in an attempt to resolve the latest episode of the endless linguistic quarrel, not only failed to do that but has made it extremely difficult for the outgoing centre-right coalition led by Mr Wilfried Martens to remain in office.

That is a pity, because since 1981 the Martens government had made a promising start in tackling Belgium's formidable economic problems. It had turned the balance of payments round and brought inflation down from 8.4 to 1.3 per cent. The budget deficit had been reduced from 12 per cent to around 8 per cent of GNP. Unemployment, still at 12 per cent, had at least begun to fall, while profitability in the private sector had recovered remarkably and manufacturing investment had picked up.

Such things are never achieved without pain. Belgium has endured five years of austerity, and in the short term Mr Martens could only offer more of the same. At first sight the election results, in which his party lost six seats and the opposition Socialists gained five, suggest that the Belgian people lack the stomach for it and have opted to revert to the fallacious remedies of the past.

Declining industries

Things are not so simple. Mr Martens's party is Flemish, and lost seats in Flanders: not to the Socialists but to other parties, most notably the Liberal party of his own budget minister, Mr Guy Verhofstadt, who is a younger and much more enthusiastic proponent of free-market policies than Mr Martens himself. Thus the Flemish, who are the larger and more prosperous part of the population, can hardly be said to have voted for a return to interventionist policies.

The Socialist party which won seats was the French-speaking one, campaigning in the other half of the country where most of its obsolete or declining industries are to be found. Moreover, the emphasis in its campaign was much less on the economic issue than the linguistic one: it cashed in on the fame of Mr Jose Happart, the French-speaking Socialist mayor whose refusal to take a statutory exam in Dutch provoked the crisis.

It is rather as if Belgium were a microcosm of Britain stood on its head, with a prosperous north embracing Thatcherism, and a depressed and resentful south; but polarised to a much greater degree because the two halves of the country speak different languages.

The resentment of the south is sharpened by the fact that its language (French) is one of international renown, traditionally associated with high culture, and was in the past that of the court and the ruling class, while that of the north (Dutch) is spoken only by a few million people, and in Belgium not so long ago was considered essentially a peasant or plebeian dialect.

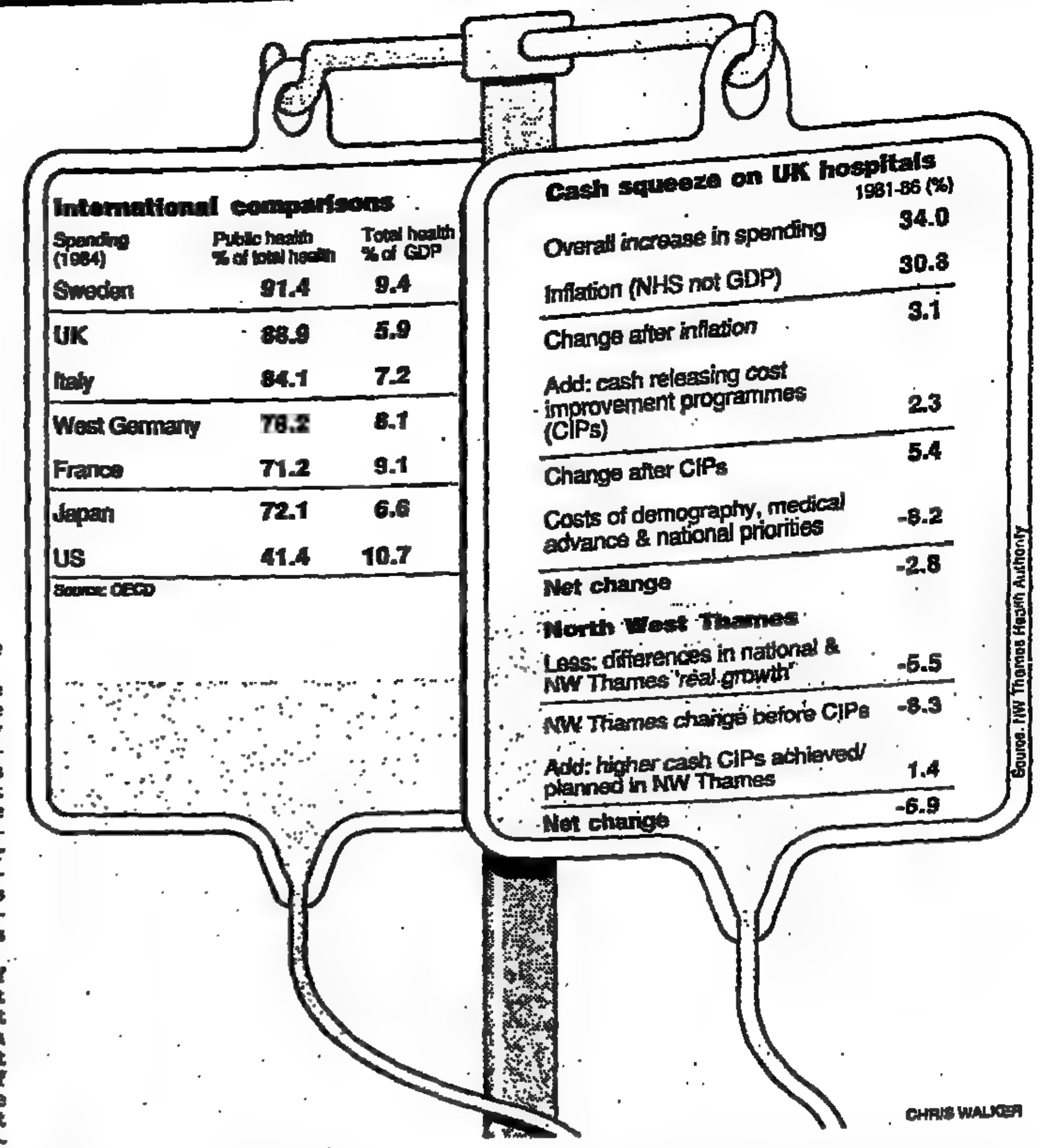
The prosperous Flemish cannot be expected to feel much sympathy with such feelings, but they can perhaps afford to be tolerant of them, given their new-found economic strength. It is encouraging that the election result on their side appears to reflect more interest in economic and ecological issues than in the linguistic one.

Of course some Flemings will be tempted to reply to the French-speakers' idolisation of Mr Happart by inviting them to fend for themselves. But probably not many will be so simplistic as to suppose that they would actually be better off if the country broke up. The divorce would inevitably be long-drawn-out, messy and acrimonious, and would have considerable economic as well as social costs.

Some people on both sides of the linguistic divide like to argue that they would be better off as separate regions within a more closely integrated European Community. But the Community itself resembles Belgium in being based on the assertion of a common identity uniting peoples of different language. The break-up of Belgium would hardly be a good omen for the future of Europe.

Michael Prowse examines the problems involved in reforming Britain's health service financing

A cure more costly than the disease



International comparisons

Spending (1984)	Public health % of total health	Total health % of GDP
Sweden	91.4	9.4
UK	88.9	5.9
Italy	84.1	7.2
West Germany	78.2	8.1
France	71.2	9.1
Japan	72.1	6.6
US	41.4	10.7

Source: OECD

Cash squeeze on UK hospitals

	1981-86 (%)
Overall increase in spending	34.0
Inflation (NHS not GDP)	30.8
Change after inflation	3.1
Add: cash releasing cost improvement programmes (CIPs)	2.3
Change after CIPs	5.4
Costs of demography, medical advance & national priorities	-8.2
Net change	-2.8
North West Thames	
Less: differences in national & NW Thames 'real growth'	-5.5
NW Thames change before CIPs	-8.3
Add: higher cash CIPs achieved/planned in NW Thames	1.4
Net change	-6.9

Source: NW Thames Health Authority

CHRIS WALKER

IN APRIL, 1946, the House of Commons enthusiastically backed Aneurin Bevan's vision of a National Health Service for Britain. In the post-war climate of fraternity and optimism, it seemed eminently reasonable that every citizen, rich or poor, should have equal access to (in Sir William Beveridge's words) "whatever medical treatment he requires, in whatever form he requires, domiciliary or institutional, general, specialist or consultant."

At a time when great swathes of the economy were being nationalised, it also seemed natural to realise this ideal in the shape of a collectively financed public service offering treatment free at the point of delivery.

Four decades later, the NHS appears to be in crisis. A barrage of complaints about inadequate hospital services has forced the Government to concede an emergency cash injection of £100m for 1987/88. The money is being provided against the better instincts of ministers, who keep reiterating how fast NHS expenditure is rising in real terms. In addition to extra cash, the Government has begun a far-reaching review of NHS funding and operations, and promises a "summit" with leading doctors early in the new year.

The "crisis" has provoked two opposite reactions. At one extreme, a set of gloomy critics maintains that the NHS is facing an "impossible task." The demand for health care provided free at the point of delivery is necessarily limitless. Therefore, apparent shortages will prevail however much money is allocated to the NHS. What people must accept is that Bevan's concept was fatally flawed. A comprehensive tax-financed service is no longer a workable proposition. Charges for services (for example, hospital stays) must be introduced and the private sector must be encouraged to shoulder more of the burden, even if this means abandoning in practice the cherished ideal of equal access to health care.

At the other extreme, experts argue that much of this critique is baloney. The closure of wards and the turning away of dialysis patients are not signs of "infinite demand", merely proof that the hospital services are badly under-funded. Radical reform is not necessary: the NHS is already more efficient than most other health care systems, certainly than private insurance-based medicine. The main problem is that the UK has not been prepared to devote enough of gross domestic product to health: with more money, the NHS could again become the noble institution it was in the 1950s and 1960s.

The evidence in support of under-funding is persuasive. The UK allocates around 6 per cent of GDP to health compared with 8 to 9 per cent in Western Europe and 11 to 12 per cent in the US. In the past 25 years, the proportion of national income devoted to health has doubled in most countries but increased by only 50 per cent in the UK.

International comparisons are notoriously misleading, but this gap is too wide to be airily dismissed as a statistical quirk. There is no reason to suppose that Britons need less health care than foreigners: indeed the UK scores poorly on international rankings for everything from tooth decay to heart disease. Nor is there good reason to believe that Britons have different preferences from their counterparts abroad: opinion poll results indicate a willingness to forgo tax cuts to enjoy better health care.

Why should people wait months for plastic hips when video cameras and Spanish holidays are in ready supply?

The much-trumpeted "real" increases in NHS expenditure are partly an illusion. The Treasury has persistently under-funded national pay awards in the medical sector, thus leaving cash-limited health authorities the unenviable task of topping up and finding unplanned economies in services. In addition, the Government has made inadequate provision for the ageing of the population: the over-70s cost seven times as much to keep healthy as younger people.

The North West Thames Health Authority, for example, calculates that, allowing for special factors such as demography and technology and including the benefits of cost-improvement programmes, it has experienced a real cut in resources of some 9½ per cent in the past five years. It has suffered not just from the national policy of switching resources from hospitals to the primary care provided by GPs, but also from a drive to reduce regional inequalities.

Few query the validity of the boost for primary health care and the poorer regions; they merely point out that it inevitably imposes extra strains when the overall health budget is so tightly controlled. The acute care facilities within hospitals have faced a further squeeze from the, again sensible, decision to divert resources towards the "Cinderella" services — for example geriatrics and care for the mentally ill.

There is obviously a germ of truth in the argument that increased resources will not solve the crisis because health care demands are infinite. But it is worth noting that many of the unmet demands today are not for esoteric treatments but for routine services like dialysis for kidney patients. Moreover, as income and wealth rises, it is perfectly reasonable for people to expect a better standard of health care. Why should people wait months for plastic hip joints when video cameras and Spanish holidays are in abundant supply?

Suppose it is accepted that more resources should be devoted to health care. This still leaves two fundamental questions unanswered. Is the NHS still the appropriate vehicle for delivering medical services? And how can its efficiency be further improved?

Perhaps surprisingly, most experts still believe that a tax-financed public health system is the "best buy" available. As Dr Julian Le Grand, an economist at the London School of Economics specialising in social issues, says: "All systems of health care are bad, but the NHS is the least bad." He points out that in recent years a steady stream of right-wing US economists has arrived in Britain to examine the NHS; the would-be critics have gone away singing its praises. They can see at a glance its advantages over a US regime that is inordinately wasteful of resources and yet leaves 30m poor Americans without any cover at all.

Ironically, at a time when the principles underlying the NHS are being scrutinised by the Thatcher Government, other countries are increasingly recognising the merits of the UK approach. Mr Nick Bosanquet of the Centre for Health Economics at York University points out that many countries have grafted tax-financed public services on to their inadequate (but expensive) insurance-based systems. In southern Europe in particular, moves towards equal access, free at the point of delivery services are underway.

A tax-financed state service offers a range of diverse advantages. In the first place, it is remarkably cost effective. As a bulk buyer of drugs and a huge employer, the NHS has managed to keep much better control of medical costs than regimes in other countries. Doctors' incomes, for example, are only two-and-a-half times average earnings compared with five times in the US and West Germany.

Funding through taxation is also much more efficient than relying on insurance, whether public or private. A recent OECD study showed that far less of the NHS's annual budget was swallowed up in administrative costs than was the case in insurance-based systems abroad: it costs a lot to bill millions of people separately for their health care. "The bureaucracy of insurance is quite inescapable," says Mr David Kenny, the general manager of North West Thames Health Authority. "What political philosophy," he asks, "would back less value for money?"

But the NHS does not just have a cost advantage. Medical treatments are not like vegetables or clothes that you can buy in the supermarket. The patient is in no position to judge what kind of health care he requires. In private systems, where doctors are paid a fee for services rendered, there is an incentive to provide expensive and unnecessary treatments. In the NHS, by contrast, doctors get salaries and are less likely to allow financial priorities to cloud their medical judgment.

Insurance systems also have a strong incentive to be selective. They will be more profitable if they can sign up healthy young adults in the upper tax brackets and ignore the poor, the old and the chronically sick. They square up only imperfectly to a central problem of health care: the fact that those most in need of expensive treatment are often those least able to afford it.

Even staunch free market economists, such as Professor George Teeling-Smith at the Office of Health Economics, accept that private health care is going to remain peripheral in the UK for the indefinite future. He forecasts a doubling of expenditure on health relative to GDP over the next 30 years, but sees only 10-15 per cent of the enlarged market going to the private sector. Mr Bosanquet points out that the private sector has had financial problems in recent years and offers only a patchy service: "It is mainly talk and little action."

Dr Le Grand at the LSE argues that any attempt by the Government substantially to boost private health in the UK would contravene "economic rationality." If the private sector began to flourish (It is currently in the doldrums with much unused capacity), its costs would escalate, as they briefly did in 1979/81. Soaring salaries in the private sector would inevitably put pressure on NHS costs as health authority managers sought to hold on to key staff.

A shift towards private provision seems unlikely to solve Britains's health problems. It would increase neither equity nor cost-efficiency. But there is still plenty the Government can do to improve the NHS, besides pumping in more money. The quality of management remains low and work practices could be rationalised.

Mr Kenny at North Thames is unusual in putting all newly appointed consultants through a management training course. He regrets that he lacks the resources to extend training to senior registrars. "The more we do," he says, "the clearer it becomes that we've hardly scratched the surface." He accepts that a minority of consultants do not pull their weight and, in principle, supports the concept of fixed-term contracts for senior staff. But he clearly does not regard restrictive practices of consultants as a major area for cost-saving in the NHS.

Moves toward the "internal market" recommended two years ago by Professor Alain Enthoven, the Californian health economist, might prove a more fruitful source of efficiency gains. The idea is that district health authorities should buy and sell services from each other and thereby derive some of the traditional economic gains from trade and specialisation. Patients would continue to get services free of charge, but from the hospital that could do their particular operation most efficiently.

A state health service offering services free at the point of delivery may look anachronistic in the 1980s, when privatisation and free markets are all the rage. By international standards, however, the NHS offers a comprehensive, fair and economical service. The danger in radically reforming UK health care is that the supposed cure could prove far worse — certainly more costly — than the present disease.

Men and Matters

Uneasy season in Bethlehem

The slogan daubed on the ancient stone wall, not far from Bethlehem's Manger Square, is simple and to the point, "No celebrations this year! Mark Christmas with prayer alone".

Amid the worst disturbances in the Israeli-occupied territories for many years, and as last-minute preparations are made for Thursday night's traditional celebrations, the mood in Jesus Christ's birthplace has rarely been so grim.

Bethlehem may have largely escaped the latest whirlwind of protest and violence. But such is the common feeling among Palestinians, of all ages and denominations, that Christians and Muslims alike are seething inwardly with anger at the way the Israeli army has been behaving in recent days.

As it happens, a subtle social revolution is also taking place virtually unnoticed in perhaps the most celebrated town in Christendom. Bethlehem is becoming Muslim. And not just meek-and-mild, turn-the-other-cheek Muslim either, but the militantly fundamentalist brand.

The headscarves worn by an increasing number of young girls, and the beards their menfolk are growing, are the visible evidence of a trend which has even produced a Muslim student majority at the Vatican-financed Catholic university.

A giant silhouette of Santa Claus in light bulbs has been erected on the famous hilltop skyline, to greet the expected horde of tourists and pilgrims.

It strikes a discordant note given the circumstances – one which will only serve to remind many visitors that commercialism has long since replaced the humility of the original message from the City of David nearly two millenia ago.

Meanwhile, in the grotto of the fourth century Church of the Nativity, with its time-stained walls, there is an air of quiet reverence in marked contrast to the volatile atmosphere in the town around.

The often warring priests of all the competing branches of Christianity are, at least for the few days to come, at peace with one another.

Battle-hardened

Sir John Collyear, chairman of electrical accessories company MK Electric, is acquiring an unrivalled knowledge of takeover battles.

For the past three weeks the company has been stalked by rival bids and now looks certain to become part of RTZ, the mining and chemicals group. For Collyear they bore a certain similarity to a still more protracted episode last year when AE, the car components group of which he was then chairman, was taken over after a particularly bitter struggle.

In the case of the bid from RTZ, a company which the board of MK originally spurned when it made its first approach last month, the board has in the past few days changed its mind following a revised offer.

Despite this new acceptance of having RTZ as a parent, Collyear says he would be "a bit sad" to see the takeover go through. He says he thinks MK, where he has been chairman forjust six months, has done a good job at building up its business independently – and that the acquisition might prove discouraging for other companies which wanted to follow a similar route.

Even if his interest in electric switches remains short-lived – it is thought unlikely that he will stay on as MK chairman – the former AE supremo will have plenty to occupy him. He will continue to serve both as chairman of United Machinery, a maker of shoe-manufacturing equipment, and also of a department of trade and industry technology committee where in recent years he has been pushing his fiercely-held view that British industry should put more of its own funds into research and development.

Snow sense

At this time of year, Chicago is tying itself down for a dose of the infamous Midwest winter.

As the Christmas trees have appeared in public squares, so have the chains staked around the Sears Tower to hold as you round the corner into gale-force winds. But in anticipation of a winter even harsher than usual – in a city that advertises itself on postcards as "colder than you'll ever imagine, USA" – doctors have warned that shovelling snow can be a health hazard.

After 19 people died in last week's sudden storm, which dumped up to a foot of snow in winds of 50 miles an hour, doctors have warned older or usually inactive people from attempting to shovel up snow in their drives and pathways.

Last week's snow was wet and heavy and the cause of many heart attacks, they say.

Dozens of fingers were also lost in operating snow-blower devices that clear a path with less effort. And the ice has taken its usual toll of broken bones.

The snow-clearing warning means a dilemma for many older people – whether to risk a heart attack to clear the snow, or a broken neck by slipping when it freezes.

King-sized

Mieczyslaw Rakowski, the newly-fledged Polish politburo member, and one-time liberal editor of the party weekly Polityka, told the central committee in Warsaw last week that ideologically things happening outside the party were more interesting than inside.

His words were no sooner out of his mouth than a press conference just across the Vistula river has proved just how right he was

There a handful of young people in their twenties have told western journalists about a "movement for real politics", which they have founded.

Wearing clothes the Spectator magazine's young fogies would no doubt approve of (infiltration by plain clothes police is difficult as the movement tends to sport comfortable tweeds in the English country style), and surrounded by somebody's ancestral portraits crammed together on the walls of a small private flat, they explain that their movement is designed to encourage conservative endeavour of every hue and complexion. Yes, this is modern Poland.

The new activists include liberals, nationalists and conservatives, as well as one monarchist – who declared that Poland is in such a mess that this is not the time to get into disputes over who he has in mind for the throne.

The Polish economy would, of course, be privatised, and the judiciary made independent, and powers divided between the executive and the legislature. Universities, in the group's view, should be given full autonomy and, best of all, privatised.

The same goes for schools. Family values would have to be restored, including a dominant role for the head of the family, the group's statement insists.

Sound the alarm

Instructions with a Hong Kong-made alarm clock on sale in London.

"To set alarm hand set alarm hand to time desired to wake. To change time desired to wake reset alarm hand to time desired to wake chosen".

Observer

FOREIGN AFFAIRS

A little local difficulty

By Ian Davidson in Paris

IN THE long-running French debate over the strengthening of Europe's defence, the universal *leitmotiv* in every learned article, the cast-iron conventional wisdom in every political speech, has been that any and every reform must start with a strengthening of the defence relationship between France and West Germany.

I begin to have the impression that this one-track cliche of French strategic discourse is beginning to give way to the thought that there may even be an equally important case for strengthening the Franco-British relationship.

The French obsession with Germany is, in its way, the most natural reflex, for reasons of psychology, history, public relations, geography, and anxiety.

The post-war history of European integration has virtually been defined by the enormous emotional effort of the French to write off the legacy of three wars in a hundred years, through political reconciliation with the Germans. No one today would care to question that priority.

Second, what goes down well at home does not necessarily go down so well abroad. The theme of Gaullist independence has preserved a national consensus on defence policy for two decades; but to the outside world the advertising image, if not the ultimate reality, of Gaullist doctrine seems to imply a readiness to leave the Germans to their fate. In Paris there has been an increasingly shamefaced awareness that this is a problem which needs attention.

If the new French priority is to strengthen *Europe's* defence (rather than boasting about France's nuclear sanctuary), then it makes sense to reassure the Germans that the Gaullist slogans do not mean quite what they seem to mean.

Third, there is anxiety that the foundations of French security are no longer as solid as they once seemed. Gaullist slogans did not mean quite what they seemed to mean, because French independence was an illusion based on the protection of America.

But Star Wars and Reykjavik showed that the current American protector was willing, with little forethought and no consultation, to run away with cockeyed new strategic notions.

Moreover, at a more banal level, the Euro-missile deal, combined with the long-delayed comeuppance for the US budget crisis, is starting to agitate fears of a double cut in the American commitment to Europe's defence, both nuclear and conventional.

Once the French political establishment started to conclude, in the new circumstances of the 1980s, that Gaullist dogma in all its purity was no longer working the old magic, it was perhaps inevitable that they should turn to the Franco-German relationship for an up-date. And indeed; what they have achieved by ploughing this furrow has been remarkable, in terms of innovations: military-strategic consultations at every level, the formation of a Rapid

The one-track cliche of French strategic discourse

Action Force designed to intervene in Germany, a large-scale manoeuvre with French troops under German command and proposals for a joint Franco-German brigade and a joint Franco-German Defence Council.

The trouble is that there are in practice three serious obstacles which impose quite sharp limits on what can be achieved in terms of European defence through the bilateral Franco-German relationship. They can be labelled, in short-hand, the obstacles of Commitment, of Nato and of Doctrine: and it is the third of these which, I believe, has persuaded the French to start showing some real interest in the Franco-British relationship.

The problem of Commitment is at once the most sensitive and the most nearly soluble. General de Gaulle took France out of Nato's integrated command 21 years ago. The consequent doctrine is that France can keep its options open, whether to fight or not to fight. But ever since President Mitterrand started military overtures to the Germans in 1981, they have never ceased to place a very crude question on the table: "Where will you be when the balloon goes up?"

Gradually, under pressure and under the logic of their own advocacy of a stronger European defence posture, the French have whittled down their claim to an independent status inside the Atlantic Alliance, to the point where little of it remains.

In his recent speech to the Institut des Hautes Etudes de la Defence Nationale, Prime Minister Jacques Chirac appeared to go further in the direction of an absolute public commitment to Germany's defence than any of his predecessors. "Who can now doubt," he asked, "in the hypothesis of an aggression against West Germany, that the commitment of France would be immediate and unreserved? There cannot be a battle for Germany and another battle for France."

The second obstacle, of Nato or sheer scale, is more recalcitrant. Even though France is (probably) Europe's most powerful nuclear power, and even though West Germany is undoubtedly Europe's most powerful conventional military power, they do not weigh in the balance against Nato as a whole, and in any case Germany shows no interest in any such rearrangement.

Since there is not the slightest chance that France would simply return to the integrated command structure of Nato, whatever Mrs Thatcher may think would be best, the new Franco-German defence arrangements, for all their symbolic drama, may risk being confined to the left-overs after Germany has satisfied its commitment to Nato.

As a matter of fact, it is not obvious that a simple return of France to its old place in Nato would be the best solution. France is in an untenable predicament: but France and the six other members of Western European Union are all in different degrees showing interest in a stronger European defence posture, precisely because of widely-shared unease over various aspects of long-standing Alliance arrangements, both political and military.

Under President Reagan, American leadership of the Alliance has been gravely, perhaps fatally, compromised and the eight-year Euro-missile saga has opened up serious doubts about the role of nuclear weapons in general, the credibility of the US nuclear umbrella in particular, and the shadow of a fundamental Euro-American conflict of interest over arms control. If what is required is a stronger and more autonomous European contribution to the Atlantic Alliance (which has become the conventional wisdom on Left and Right in France), it obviously will not be brought about through a Panglossian regression in conformity to traditional institutional arrangements.

Manifestly, neither the Elysee nor the Matignon has a solution to the quandary: but there is a widespread sense in Paris that the re-orienting of Europe's security arrangements will require movement all round, not just a *mea culpa* from the naughty French.

The worst obstacle is the third, that of Doctrine. Nato

There is no evidence that Paris's ideas are accepted in London

maintains that nuclear weap*ons can make up a shortfall in* conventional forces, and therefore can be used tactically; France claims that nuclear deterrence exists to make war impossible, and that nuclear weapons cannot be used except as a final warning before the holocaust.

So long as these differences are sustained at an incantatory level of mystical dogma, there is clearly little room for operational defence co-operation between France and Nato, and the difficulty is greatest in terms of Franco-German co-operation. French and German armies cannot realistically fight side by side if they have contradictory views on the role of nuclear weapons: and Germany ultimately has no autonomy to depart from a nuclear doctrine developed by the US and adopted by NATO.

In the speech that I referred to earlier, Jacques Chirac confronted this problem head on, when he referred bluntly to "the coexistence of a French strategy and a Nato strategy". He went on to ask: "Can France and Germany agree on common strategic concepts?... Can we imagine that the French units in the Joint Brigade would take decisions contrary to those of the German units? Such a situation would be obviously absurd."

He claimed to detect a rapprochement between Nato ideas and those of France. "Our allies," he said, "have increasingly recognised the need to give priority to the weapons of nuclear deterrence over those required for a nuclear battle."

French nuclear doctrine is not simply perverse: it is the logical corollary of a small independent nuclear force. If France is to achieve a doctrinal rapprochement with anyone, it can only be with an ally in the same boat: Britain. So long as the US remains committed to Europe at every level, the nuclear systems of France and Britain are little more than toys; the day when the US was perceived to be retreating towards the horizon, they would become vital.

It is this necessity which lends particular interest to the new Franco-British project jointly to develop an intermediate-range air-to-surface nuclear missile. And it may be no accident that the Chirac speech seemed to give a higher priority to a strengthening of links with Britain than to those with Germany.

Some advocates of nuclear co-operation between France and Britain have focused on long-range strategic weapons. It is in fact at the sub-strategic or tactical level, at the interface of the nuclear threshold, that doctrinal differences are apparently so profound and *co-ordination so evidently necessary.*

The case for a closer Franco-British defence relationship seems to respond to a logical requirement of the nuclear dilemma in the post-INF, post-Reagan era. There is no evidence that ideas now surfacing in Paris are accepted or understood in Downing Street.

But it may be worth quoting the very personal view of a French strategic expert: "In the days of General de Gaulle, the French had a certain superiority complex; under Mrs Thatcher, you English have a certain superiority complex: yet in reality, we both think very much alike. The Germans, on the other hand, live on a different planet."

Lombard

When customers come last

By Christopher Lorenz

THE GAS man cometh next Tuesday. At least, I think he doth. When our living room fire went wrong in late November the gas board named December 9 as the earliest someone could call to repair it, but cried off on the day itself because of "shortage of staff". Next Tuesday was the earliest substitute on offer.

I have no idea what time he'll turn up: the board could only say it would be some time between noon and 4.30. So once again my busy wife will wait at home for hours in chilly hope. Even if she is blessed with a visit the whole repair process could well take at least another month, while the right part is located, ordered, delivered and fitted.

Yes, I know we could have dumped officialdom and called in a handyman from round the corner, but one doesn't take risks with gas. Anyway, I wanted to see if the board's service had improved after years of public criticism. Seems not.

My complaint is not peculiar to gas. I was thankful to escape the well-publicised fate of thousands of British Telecom customers who waited weeks for repairs or service this summer. But when our car crashed in October (its handbrake failed after twice being "repaired" by a garage), it took the insurance company almost five weeks just to inspect the damage, and almost another three to offer to settle the claim by scrapping the vehicle. We have still not been told formally whether the garage actually has been asked to accept liability, and whether we will lose our no claims bonus. All this from an insurance group which boasts of its "reputation for fairness and prompt settlement of claims".

To cap it all, on my way to write this article my British Rail train was late (unannounced), and I had to brave the usual slow queue at my local Lloyds bank because most of the windows in its so-called "customer service hall" were empty of tellers.

Nor are such problems parochially British. In the land of baseball, ice cream and supposedly super service this autumn I joined hundreds of other hungry guests at the Boston Sheraton hotel in a two-hour wait for room service to bring our breakfasts. The next, hectic, day I was left stranded at Logan Airport's Hilton for a precious half hour, waiting for a non-existent Hertz courtesy bus which several phone inquiries told me was "arriving momentarily". Having then queued for almost as long at the rental desk to collect my pre-booked car , I abandoned the chase and went instead by (late) plane.

The next evening was a variation on the same theme. Having been hustled by TWA staff to the departure gate for the "on time" overnight flight to London, I joined a crushed plane-load of passengers in a marathon hour-long stand-in. Neither explanation nor apology was offered. On the plane, it took a full two hours for dinner to be served, halving the already short sleeping time before our arrival.

These are mere selections from a long personal list of service grievances compiled since the summer. If family, friends and colleagues all added their own, the catalogue of complaints, and the roll call of offending companies, would be endless.

The common denominator of all these companies is that, at least when I and my friends are around, they fail to "put the customer first", to purloin a slogan popularised by British Airways (itself still an occasional offender).

Some of them try hard to do so, but find it tough always to motivate and control far-flung staff, especially if these are of *low calibre. As McDonald's, the* Disney organisation and the world's few other service paragons learned long ago, it is easy enough to ramp up employee performance for short periods of time. Sustaining it is far, far harder.

In airlines as in other industries, classy customer service is fast becoming a prime competitive weapon. But even if a company's service isn't perfect, its customers will usually be forgiving if it observes just three rules: it is seen to be trying its best; it avoids inflating expectations to unrealistic levels (airline advertisements often offend in this respect); and it offers a proper explanation when things go wrong. Gas board *et al*, please note.

Letters to the Editor

NHS demand and supply

From Mr Alan Burton.

Sir, Joe Rogaly (December 17) appears to accept without question the economic hypothesis put about by politicians from the Prime Minister downwards when he says that "if you provide a service free at the point of supply then demand is likely to be infinite."

Since health care is not a "good" that people desire in unlimited quantities for its intrinsic utility, but rather one which they seek only when they are ill (or at any rate they only seek the hospital and high tech services, which are the main substance of the present debate, when they are ill), it is far from true that demand is infinite. What is meant, in economic analysis terms, is that the *slope* of the demand curve is infinite *at current levels of supply.*

The interesting (and important) question for economic investigation is: at what (higher) level of supply would all demand be satisfied? At such a level of supply, demand would be in equilibrium with supply, and any higher level of supply would merely result in unused or underused facilities.

I do not know what this level is; it might be 25 per cent or 50 per cent higher than present levels, but I find it hard to believe it would be much higher than that. Whether the taxpayer would be prepared to fund such a level is a different matter, but from an economic management standpoint the level should surely be quantified; ideally along with alternative ways (that is, reduced/dropped services) of living with various lower increments of provision.

Once this has been done — and I accept that a very substantial research study would be involved — a truly informed debate about the appropriate level of funding/taxation would be possible; but please, no more talk of infinite demand, with its implication that fit and well people are longing to be treated in hospital.

Alan G Burton,
Chestnut Bank,
Wealden View,
Burwash, East Sussex

Electricity under privatisation

From Mr John Baker, Managing Director, Central Electricity Generating Board.

Sir, In accusing me (December 11) of giving misleading impressions in my article on electricity privatisation, Mr Alex Henney manages to misrepresent me in at least three of his criticisms, and to misunderstand some of his own information.

For example, he claims that I overlooked the 1936 Central Electricity Board (CEB) as a model for a transmission body *separate from generation. Not so.* I was referring to the wilful fragmentation of an existing integrated electricity supply power system, and I stand by my view that no country has attempted the complete separation of transmission and generation.

However, noting that Mr Henney has to turn back the clock 60 years to find any precedent to support his own theories, it is as well to understand the lessons history provides. They are summed up in the words of Leslie Hannah, author of the standard history of electricity in this country.

Talking of the situation immediately before nationalisation in 1947, he writes: "At the CEB, the engineers regretted that their control over power station planning, finance and operation was only partial, and they felt that further improvement would require more central control, involving outright ownership and management of the municipal and company stations."

As Mr Hannah explains, this was because the CEB lacked the power to order capacity to be built, to get the utilities to expand when expansion would be in the national interest, and to get utilities to cut costs.

Misunderstanding his own information, Mr Henney mistakenly compares the Central Electricity Generating Board's planning (that is, long term) margin of 24 per cent with the New York Power Pool's (short term) margin of 18 per cent. In the short term, the CEGB aims and achieves 20 per cent, while the NYPP forecast that its margin *will be 35 per cent in each of the* next 10 years.

Thus Mr Henney unwittingly reinforces some of the very points I was trying to make in my article. This showed the benefits of maintaining a fully integrated power system under privatisation - benefits including tighter plant margins, better optimisation of fuel use, and greater security of supply.

John Baker,
Sudbury House,
15 Newgate Street, EC1

He thinks when he plays

From Sir Isaiah Berlin.

Sir, Critics are entitled to some degree of aberration, but Dominic Gill, in his now notorious notice of one of Alfred Brendel's Schubert recitals, seems to me to abuse the privilege. Mr Brendel does not need defence from anyone — it is rather Mr Gill who stands in need of it. I have no doubt that his piece will do far more damage to his reputation than it could conceivably do to that of Mr Brendel.

I remember that similar charges — an intellectual *approach, didacticism and so on* — were made in London before the Second World War against Artur Schnabel; in effect, that he thought when he played. These are now, at best, historical curiosities.

Isaiah Berlin,
Garrick Club, WC2

Some people don't like the idea

From Dr Geoffrey Myddleton.

Sir, The US Food and Drug Administration may declare that the use of synthetic female sex hormones to promote growth in livestock "poses no health hazard" (Letters, December 7), but this does not mean that it is *either desirable or free from risk.* The effect of such drugs is to castrate the animal by chemical means, and the body tissues of that animal will contain a castration dose if not more.

A ten-stone man eating half-a-pound of such meat per day will be taking in 2.5 per cent of a castration dose per week. Some people just don't like the idea.

Geoffrey Myddleton,
Blue Moon,
1867 Glutieres-sur-Ollon,
Vaud, Switzerland.

Uncertainty is signalled by margins of error

From Professor Colin Mayer.

Sir, There are three classes of criticism with which an academic who inadvertently strays into the territory of the practitioner can be expected to be greeted. The first is the "there is nothing new under the sun" school; the second is "it is all much more complicated than you imagine;" and the third is the "don't blame me" set. All, invariably, have some substance.

The correspondence published under the heading "The Accounting Debate" (FT, December 7), which referred to a lecture I delivered and a recently published book that I co-authored, exhibited all three responses.

John Arnold noted that the supposedly "new theory of economists" was "well documented in the accounting literature more than 20 years ago." In fact, the accounting convention advocated in the lecture and book — the *value-to-the-owner rule* — can be traced back to the work of Canning in the 1920s, if not before. To quote from the lecture: "Value-to-the-owner rules have been widely advocated by many. We make no pretence to having discovered them; they have a long and distinguished intellectual history. That, I feel is their strength. What they have, however, lacked is a theoretical justification for their implementation.... The book written with Jeremy Edwards and John Kay is designed to provide exactly that".

Richard Clark presented the most common criticism of value-to-the-owner rules; that they are subjective, lack common yardsticks; and are unduly expensive to implement. Historic cost accounts were claimed to be easily understood. In making these assertions, the accountancy profession appears to come dangerously close to laying special claim to problems of uncertainty. The response of engineers and physicists to "subjectivity" is neither to ignore relevant considerations nor to employ instruments that are known to be miscalibrated. Instead, uncertainty is signalled by margins of error and tolerance bands. The use of notes, classifications of entries, and above and below the line items, are the equivalent tools of the accountant.

The assertion that historic cost accounts are easily understood stands uneasily alongside the finding, in the recent survey undertaken by the Association of Certified Accountants, that 38 per cent of private shareholders did not know whether companies in which they held shares accounted for inflation in their published accounts.

There can be little doubt which scheme a cost-benefit analysis of alternative accounting proposals would favour. To quote once again from the lecture: "We could find no set of questions to which historic cost accounting was the correct answer".

In contrast, value-to-the-owner rules provide information that is "of real value to investors, managers, regulators and economists." This difference is only in part attributable to inflation. many of the recent controversies in accounting result from a failure to implement appropriate principles in the absence of inflation.

This observation emphasizes the importance of taking advantage of a temporary respite in inflation to put accounting conventions in order. The demise of current cost accounting was only in part due to the decline in inflation. SSAP16 was a mess. The failure to achieve a satisfactory system of accounting was variously attributed in the correspondence to the ambitions of managers, lawyers and investment houses. It is precisely in circumstances in which unenlightened self-interest prevails that serious consideration has to be given to legislation.

Colin Mayer,
City University Business School,
Frobisher Crescent,
Barbican Centre, EC2

FINANCIAL TIMES

Tuesday December 22 1987

Hong Kong Minister will defend dollar link to the bitter end, reports David Dodwell

Tide turns on currency revaluation

"WHEN IT comes to debate on the US-Hong Kong dollar link rate, Mr Piers Jacobs is the very epitome of Pavlov's Dog," said one senior Hong Kong merchant banker recently of the territory's financial secretary. "One suspects he would resign before he would alter the link."

Economists could debate ad nauseam about whether or not Mr Jacobs' defence of the link rate is a matter of Pavlovian reflexes. But after weekend moves to halt speculative pressure against the local currency by planning to charge levies on large bank deposits in the territory, there can be no questioning his determination to defend the link to the bitter end.

For several weeks hundreds of millions of US dollars have flooded into the territory on the speculative assumption that the administration would bow to US Government pressure to revalue the local currency .Yesterday the tide turned.

In response, the Hong Kong dollar eased back to the closest it has been in weeks to the link rate – HK$7.80 to every US dollar. At the close of local trading it was HK$7.795, compared with a pre-weekend close of just below HK7.76.

The latest bout of speculation erupted two months ago, after Mr James Baker, US Treasury Secretary, called on Asia's newly industrialising countries (Nics) to revalue their currencies to "reflect economic fundamentals."

It was fuelled early this month by Mr David Mulford, his assistant, who said the Nics- Taiwan, South Korea, Singapore and Hong Kong- had "a responsibility to contribute to a reduction of global (trade) imbalances."

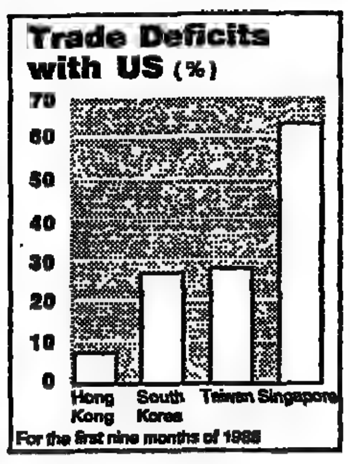
Hong Kong officials, long used to irrational assaults from various protectionist lobbies in the US, have been taken aback by the latest squeeze. Mr Hamish McLeod, Hong Kong's Secretary for Trade and Industry, said yesterday: "All of those from the US involved in the latest debate are well versed in the arguments concerned, so it's rather difficult to know what more we can say to them."

Hong Kong, following a visit just over a year ago by a US trade delegation led by Mr Dan Rostenkowski, chairman of the House Ways and Means committee, has come to assume that the US accepts its argument that it is a "special case" among the Nics .

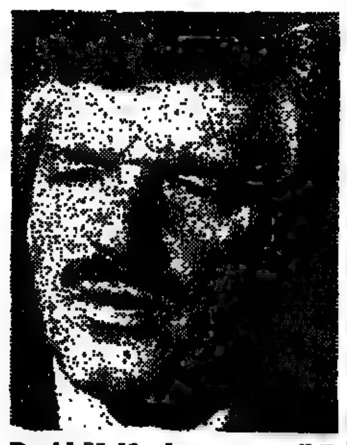
Acknowledging Hong Kong's open market trade regime, Mr Rostenkowski called on Hong Kong to persuade neighbours to dismantle trade barriers: "We need your help in opening markets, a move that will benefit us both," he said.

In complete contrast, there have in recent weeks been dark hints that territories failing to revalue their currencies will face trade sanctions. Mr McLeod, for one, sees the threat as bluster entirely for domestic consumption. He said: "If the US were to take retaliatory trade action against one of the only free markets in the world, they would look ridiculous."

Hamish McLeod: retaliatory trade action would make the US look ridiculous



For the first nine months of 1988



David Mulford: a responsibility to contribute to reducing global trade imbalances

Examining in turn the claims made in support of a revaluation, Hong Kong officials, Pavlovian or not, argue persistently that the territory cannot be compared with other Nics in East Asia, even though they are fierce competitors:

● Bilateral trade surplus. Hong Kong has maintained for many years a bilateral trade surplus with the US, which in the first eight months of this year was HK$4.28bn ($550m). However, officials argue that this is irrelevent because US exporters have unimpeded access to the Hong Kong market.

● Overall trade surplus. Hong Kong had a visible trade surplus in 1985, but was in balance last year, and may record a small deficit this year.

● Burgeoning reserves. Mr Nendick said: "We don't reveal our reserves figures, but they can be reckoned in terms of a few months of imports, rather than the three years of imports amassed by Taiwan."

● Overvalued currency. From a base of 100 in October 1983 – the month before Hong Kong's currency collapsed amid political panic, leading to the establishment of the current linked-rate system – Hong Kong's effective exchange rate today is just under 103.

In a territory with a record for political volatility, officials argue that overvaluation is impossible to demonstrate.

They also scoff at suggestions that a "strong" economy like that of Hong Kong should have a stronger currency compared to a "weak" economy like the US because, like all four Nics, it is heavily dependent on exports to the US for its health.

In addition, fears of recession in the US in the wake of October's stock market crash, have raised questions about export prospects to the America in 1988. Uncertainty over trade prospects makes calls for revaluation even more inappropriate.

The administration also presents a number of cogent arguments for Hong Kong being regarded as being a special case:

● The link rate was established in the midst of political crisis, and has been maintained for political reasons. At the time of the crisis, one option seriously considered was to make Hong Kong a US dollar territory. Over the four years the link has been in place, currency stability has been an important anchor to the economy through several subsequent crises – the negotiations over the return of Hong Kong to Chinese sovereignty in 1997, a major banking crisis in 1985, and the stock market collapse just two months ago which forced the closure of the stock exchange for four days.

● Officials claim that it is arguable that revaluation would help to correct trade imbalances. They point to statistics over the first nine months of this year (see chart) which show that Taiwan and South Korea, which have both revalued their currencies substantially over the course of the year, have also seen the strongest export growth to the US, slower growth in imports from the US, and the fastest growing trade surpluses.

● Hong Kong is the only Nic with a fully convertible currency, and this makes it peculiarly vulnerable to currency speculation. Mr Nendick insists: "we are far too small an economy to become an entrepot for capital."

Officials say that if the link were changed now, it would set a precedent that would fuel speculative activity in future. This would both aggravate volatility and undermine for ever the confidence that has been built up around the stability of the link.

"Of course, we should never say never," concludes Mr Nendick, "but we really cannot see circumstances which would be well served by adjusting the linked rate."

No relief for Bhopal as legal arguments drag on

By K.K.Sharma in Bhopal

THE UNION Carbide pesticide plant in Bhopal remains closed three years after methyl isocyanate gas leaked from its storage tanks on the night of December 3 1984, killing more than 1,500 people and seriously injuring more than 40,000.

Bhopal will never forget the disaster. Anger against the US multinational is apparent everywhere in the bustling, picturesque capital of Madhya Pradesh state in central India.

The graffiti on the closed gates of the plant says: "Down with anti-people Union Carbide; Hang Anderson (Warren Anderson, the then chairman of the company); Carbide must pay interim relief." The last statement is perhaps most illustrative of the feelings of the people.

The district judge has ruled that Union Carbide must pay a substantial interim relief of Rs3,500m ($269.5m), but company officials say it will probably contest the ruling – so the anger is bound to grow.

It is a grim fact that the victims of the worst industrial disaster in the world continue to suffer while hardly anything has been done for them.

About 45 people die every month of diseases caused by the deadly MIC gas that leaked from the plant's storage tanks. This week the death toll reached 2,866 – 1,300 more than the original number of dead.

Thousands remain critically ill and there is space for only a few score in Bhopal's hospitals (one 100-bed hospital was added recently to treat gas-affected victims). Most of the ill and the dying are treated in homes which are still a pitiful sight.

The main slum near the Union Carbide plant, where hundreds died, was given a facelift a month ago because Mr Rajiv Gandhi, the Indian Prime Minister, was to visit Bhopal. The slum now has piped water and some of its narrow, dirty lanes are paved. But the huts remain decrepit, unhealthy hovels of makeshift logs and stones with no ventilation.

Uncollected garbage and stinking, open sewers add to the squalor. Filthy drains, clogged with sewage and slime, run through the slums, increasing the risk of disease for those gas-affected victims who lie on dirty mattresses all day because they no longer have the strength to clean anything.

One such victim earned Rs3,000 a month three years ago. Now his wife and eight children have no means of support. This is not an untypical example.

The Indian and Madhya Pradesh Governments have spent a relatively paltry $50m on relief and rehabilitation, almost half of which was given away in relief to the victims soon after the disaster. Most of the remainder has been spent on creating medical facilities (which remain grossly inadequate).

Doctors admit they can do no more than treat the symptoms since they have no cure for the diseases.

So, when the district judge of Bhopal ruled that Union Carbide must provide "substantial interim relief" and took up the petition of two organisations representing the victims for humanitarian reasons, he struck an immediate chord with the people of Bhopal. They are fed up both with Union Carbide and the Government which have been wrangling for months in an attempt to reach an out-of-court settlement at the request of the district judge.

The behind-the-scene negotiations have stalled, although neither side has acknowledged that they have failed. Union Carbide officials say they offered payment of $650m but that there was no agreement on the question of criminal liability.

The Indian Government has not revealed its position but it is believed that it wants a figure nearer $1bn (its claim in court is for $3.3bn) spread over a far shorter period than Union Carbide is willing to consider.

Although both sides say that the talks have not broken down, an early compromise looks unlikely. Union Carbide has its own limitations and its officials say privately that business interests cannot be ignored.

The Indian Government, on the other hand, is under increasing pressure not to compromise since this would amount to betraying the interests of the people of Bhopal. For this reason, a compromise on the basis of Union Carbide's offer is considered to be politically unfeasible.

Union Carbide's apparent determination to contest the interim relief award and the notoriously slow and cumbersome procedures of the Indian courts will cause further delays.

The Indian Government is pressuring Union Carbide as much as it can – most recently when it filed separate criminal charges of homicide (which carry a penalty of life imprisonment) against senior Union Carbide officials, including its chairman, Mr Robert D. Kennedy.

But all this gives no succour to the dead and the dying in the slums of Bhopal.

THE LEX COLUMN

Trusting to luck at British Gas

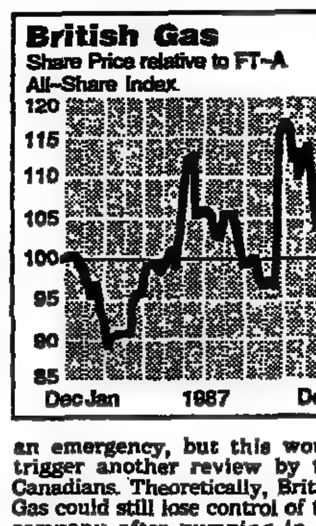
The market continues to see the old year out in robust form, with the added bonus yesterday of a return to healthier trading volume. But although the institutions seem to be edging off the sidelines, there is no sign yet of a buying stampede. The volume figures are distorted by tactical stake-building, dawn raids and the rest; of yesterday's total turnover, BP and Britoil between them accounted for nearly 30 per cent.

British Gas

British Petroleum and Midland Bank are two well-known British companies which have paid dearly in the past for their inability to control the managements of their North American investments. In both cases, they were the majority owners of businesses which they knew reasonably well - Standard Oil and Crocker National Bank - but they were still unable to prevent the local managements from squandering hundreds of millions of dollars of shareholders' money. In the end both were forced to buy out the minority and instal new management to rescue their investment, and their painful experience provided a sobering lesson of the potential pitfalls facing British companies in North America.

British Gas, which after several false starts yesterday announced that it had finally agreed on the terms of its proposed investment in Bow Valley, a medium- sized Canadian oil and gas company, does not feel that the unhappy experience of the above companies has much bearing on its own situation. Nevertheless, there must be a certain amount of unease about the sight of a very wealthy UK company making its first major overseas investment in a company over which it has limited control. Bow Valley is being given C$517m of British Gas's money to play with and describes its deal with British Gas as an "alliance", which makes one wonder who is really in charge at the end of the day.

In some respects British Gas is in an even worse position than either BP or Midland Bank, since it is buying 51 per cent of the equity yet has only a third of the voting control, in order to avoid upsetting the Canadian authorities. It hopes to win approval to nominate a majority of the directors to the Bow Valley board, and believes it has a level of management control "appropriate to its investment". The convertible preferred shares provide it with the ability to increase its voting control to 51 per cent in an emergency, but this would trigger another review by the Canadians. Theoretically, British Gas could still lose control of the company after pumping in all that extra money.



BP

Government support for BP new has only a fortnight to go – official. Strictly speaking, yesterday's announcement of the removal of the 70p floor on January 6 merely confirmed that the scheme will be allowed to run to the last minute. It would still be technically feasible to introduce a new scheme in its place, but it seems to be tacitly accepted that the Bank of England could then be accused of having induced the public to part with its shares under false pretences.

The question of how much the Bank will end up with – or, put another way, how big a market there will be in the partly-paid after January 6 – might turn out to be surprisingly ticklish. Last Friday, with the fully paid at 238p, it seemed certain that the Bank would cop the lot, the only question for the professional investor being whether to take the money or reinvest in BP by another route, such as the old shares or traded options. With the price 13p better yesterday, it could be getting to the stage where a big holder might consider hanging on.

With the old shares at 251p, the new are not strictly worth anything above 60p. For the institutions which ended up holding stock as sub-underwriters, though, the question is whether they actually want to reduce their weighting in BP overall. If not, they must calculate the cost of replacing their stakes through the market, and whether buying in such size might not drive up the price of the old by more than they would save by selling the new.

Then again, the game is not quite up yet. Up to the last minute, institutions who are prepared to be penny-pinching might consider having a despatch rider waiting, allotment letter in hand, ready to dash round and sell at 71p to the Kuwait Investment Office.

British Airways

The board of British Caledonian, with the able backing of 3i, has managed the BA bid with considerably more aplomb than it has run its own business in recent years. A cash offer increased from last July's £220m to yesterday's £250m – despite the subsequent intervention of the crash and the Monopolies Commission – is tribute to a well-played hand of financial poker. Despite the clear longer-term benefits to BA from ownership of BCal, this price must be close to the highest level that it would still find attractive.

Unless generous use of extraordinary items provides more elasticity than expected, there will be some dilution for BA in 1988-89, although shareholders might be comforted by lower oil prices and the fact that dilution would have been worse with a share offer. The well-rehearsed benefits of the merger, from closing offices to merging marketing and ticketing, may also be slightly qualified by reduced flexibility at Gatwick (arising from the Monopolies Commission's terms) and the difficulty in rescheduling flights for next summer. The bigger worry is that when the benefits do start to flow in 1989-90 the airline will be hit by a combination of recession and the 747 replacement programme.

Nonetheless, while BA may have exaggerated the operational threat of a BCal-SAS combination it would have taken some nerve to bluff it out and stick to a lower offer. A bit more openness with the BCal board at an earlier stage might, however, have shaved the price a little. The only obvious losers are SAS, airline customers and those - such as Kleinwort Grieveson's clients - who sold BCal last week at £9.72.

Fashion

The decision by Next to bring the prominent chartist Mr Brian Marber onto its board is plainly a breakthrough in women's fashion. Using hemlines to plot the stock market is an established technique. Next seems to be the first retailer to think of trying it the other way round.

Sweden considers closer links with EC

BY QUENTIN PEEL IN BRUSSELS

SWEDEN is considering major steps towards closer integration with the European Community – including the possibility of automatic compliance with rulings of the European Court of Justice and making cash contributions to the EC regional and social funds.

However, there is no early likelihood of Sweden seeking full EC membership, involving discussions on security and foreign policy issues.

The options were spelt out in Brussels yesterday when Mr Carl Johan Aberg, Under-Secretary for Trade, met Mr Willy De Clercq, the EC Trade Commissioner, to explain the Swedish Government's latest bill on relations with the Community.

He made clear that Sweden, like the other members of Efta, the European Free Trade Association, is most concerned not to be left out of the negotiations to remove all internal EC trade barriers by 1992.

"We hope to be part of this process," he said. "If we want to participate, we must adapt to European standards. That is the burden of adaptation we are ready for."

On the other hand he added: "We are not talking about membership for many years ahead. It is an academic question."

Mr Aberg said that legal experts were already working in Sweden on the implications of complying with European Court rulings on questions like competition law and state aid. EC member states would be likely to see such compliance as a necessary counterpart for any automatic inclusion in the benefits of a barrier-free internal market.

On the question of making cash contributions to the EC regional and social funds – which the southern EC states see as a quid pro quo for scrapping trade barriers – he said: "We are open to discussion", although it was too early to make any commitment.

Although he did not mention Swedish neutrality specifically in his press conference after the meeting, he said that any move to full EC membership "would change the security pattern of northern Europe, according to our analysis."

Bonn spurns call to accelerate growth

Continued from Page 1

cials meeting at the OECD as the Economic Policy Committee, explicitly singled out Germany for special attention: "A majority of the committee thought that additional fiscal measures in Germany to support demand would be desirable in the current economic situation."

Yesterday the German Government stuck stubbornly to its guns. "With the decisions taken by the Federal Government on December 2 1987, a major contribution had already been made to strengthen growth.

"In particular, through an increase in tax reduction for 1988 of more than DM5bn ($8bn) to nearly DM14bn (0.7 per cent of GNP) and the decisions concerning the major tax reform of 1990 entailing an additional net tax relief of approximately DM20bn (about 1 per cent of the GNP), far-reaching measures have been taken to reinforce sustainable growth.

The OECD Secretariat remains unimpressed. It continues to recommend additional measures, including the advancement of the 1990 tax reform, temporary income tax cuts under the Stabilisation and Growth Law, further deregulation to enhance competition and flexibility, and the reduction of subsidies

As for the Bonn Government's recent actions, the OECD was equally unimpressed. "At the time of writing," it said, "the German authorities had just announced measures to support economic activity, the likely impact of which remains to be evaluated."

British Airways wins the battle for BCal

Continued from Page 1

it was not accepted by 3pm yesterday.

Lord King said BA had raised its offer because delay was "seriously affecting BCal's trading position and the morale of its staff." BCal required immediate action to turn its operations into an efficient and profitable part of the new merged airline, he added.

BA will be seeking at least 2,000 voluntary redundancies from the combined group. The BCal name is likely to be retained only for BA's charter operations.

Mr Lindberg, who acted as SAS's chief negotiator, said his airline had been restricted by UK law which limited it to making a partial offer. SAS had known from the outset that a transnational takeover situation in a highly regulated industry would be an uphill battle.

"In any case, we got past more hurdles than anyone would have thought possible from the start," Mr Lindberg said. SAS's partial offer had been cleared by the Department of Trade and Industry and the Civil Aviation Authority.

Mr Lindberg said: "We made it so far, at least, that the question was decided where it rightly belonged, with the shareholders."

Earlier yesterday, Lazard Brothers, BA's merchant bank adviser, had raised its holding in BCal to 9.7 per cent with additional purchases from investors. Those purchases were made at the previous offer price of £9.72 per share, compared with the new recommended terms of £12.15.

BA's parallel share offer yesterday valued BCal shares at £8.57.

● British Caledonian is facing its first all-out strike by cabin staff next month in a disciplinary dispute involving seven employees, **Jimmy Burns writes.** The TGWU transport union, which represents the 1,350 BCal cabin staff, said yesterday it planned to hold a mass meeting on January 4 to discuss industrial action.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	14	57	Dubrovnik	S	14	57	Malta	S	17	63	Rhodes	R	14	57
Algiers	S	19	66	Edinburgh	D	11	52	Manchester	F	11	52	Rio de Jo	C	30	86
Amsterdam	D	10	50	Faro	F	17	63	Manila	S	33	91	Rome	S	15	59
Athens	F	13	55	Florence	C	11	52	Melbourne	S	19	66	Salzburg	C	8	46
Bahrain	S	23	73	Frankfurt	C	9	48	Mexico City	C	24	75	San Francisco	C	11	52
Bangkok	S	29	84	Funchal	C	19	66	Miami	C	25	77	Seoul	F	6	43
Barcelona	S	16	61	Geneva	S	8	46	Milan	Fg	5	41	Singapore	S	31	88
Beirut	F	15	59	Gibraltar	F	17	63	Montreal	Sn	2	36	Stockholm	C	1	34
Belfast	C	11	52	Glasgow	R	10	50	Moscow	C	-8	18	Strasbourg	S	8	46
Belgrade	F	9	48	Guernsey	D	9	48	Munich	D	7	45	Sydney	R	17	63
Berlin	F	9	48	Helsinki	S	-7	19	Nairobi	F	29	84	Taipei	F	20	68
Biarritz	C	10	50	H. Kong	S	20	68	Naples	F	16	61	Tangier	C	16	61
Bombay	S	28	82	Innsbruck	C	6	43	Nassau	S	27	80	Tel Aviv	F	18	65
Bordeaux	Fg	5	41	Inverness	C	8	46	New Delhi	S	25	77	Tenerife	C	20	68
Bristol	D	9	48	Islamabad	S	24	75	New York	F	9	48	Tokyo	S	12	54
Budapest	C	11	52	Istanbul	C	8	46	Nice	F	15	59	Toronto	C	5	41
B. Aires	S	24	75	Jakarta	R	32	90	Nicosia	R	16	61	Tunis	C	[illegible]	[illegible]
Cairo	R	14	57	Jersey	C	8	46	Oporto	S	13	55	Valencia	S	16	61
Cape Town	S	29	84	Jo'burg	F	28	82	Oslo	S	-1	30	Venice	Fg	3	37
Caracas	S	26	79	L. Palmas	S	25	77	Paris	C	6	43	Vienna	C	10	50
Casablanca	C	17	63	Lisbon	F	17	63	Peking	C	3	37	Warsaw	R	6	43
Chicago	C	4	40	London	C	12	54	Prague	F	9	48	Washington	C	7	45
Cologne	C	9	48	Los Angeles	F	19	66	Reykjavik	F	2	36	Zurich	Fg	4	39
Copenhagen	S	8	46	Luxembourg	Fg	5	41								
Corfu	S	16	61	Madrid	F	11	52								
Dallas	C	4	39	Majorca	S	18	64								
Dublin	R	12	54	Malaga	C	17	63								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Israeli Arabs on strike

Continued from Page 1

The Ministry of Labour and Social Affairs is making contingency plans in case the skilled minority among the Arab workers stays away. It has issued 500 permits for foreign workers from Greece, Cyprus, Yugoslavia and Portugal to fill the gap.

The Israeli Arab strike passed off with scattered disturbances, but no serious casualties. The main violence occurred at the northern end of the West Bank.

Paramilitary border police shot dead an 18-year-old Palestinian who ambushed them with petrol bombs in the town of Jenin. An army spokesman said that four of his companions were wounded.

As news of the shooting spread, riots broke out in the village of Toubas,19kms east of Jenin. According to the spokesman, an army patrol opened fire when it was attacked with petrol bombs. Two rioters were killed.

Bethlehem was like a ghost town, with not a single gift shop open to pilgrims just three days before Christmas.

The Arab mayor, Mr Elias Freij, cancelled his traditional Christmas Eve reception yesterday, although the religious festivities will go ahead.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Tuesday December 22 1987

Redland agrees to buy Monier tile unit for A$298m

BY NIKKI TAIT IN LONDON

REDLAND, the British building materials group, has finally settled its long-running wrangle with New Zealand's Equiticorp, by agreeing to buy the rooftile business of Monier, an Australian building products company in which it holds a 50.1 per cent stake, for A$298m (US$213m) cash.

In return, the UK company will accept a A$4.15-a-share bid for Monier from Equiticorp Tasman, part of the Equiticorp group controlled by New Zealand businessman, Mr Allan Hawkins. The proceeds for that stake will total A$320m.

The deal gives Redland full control of Monier's roof tile business in Australia, where it is the market leader. Redland will also own Monier New Zealand and the US roof tile business, plus 60 per cent of Nippon Monier in Japan, 60 per cent of PT Monier in Indonesia and 30 per cent of Thailand-based CPAC Monier.

Equiticorp, meanwhile, will retain Monier's concrete pipe and concrete pole interests, the masonery side, the metal businesses and the aggregates operations. The New Zealand group will also assume the bulk of Monier debts; at end-June, these were put at A$115m, and Redland is taking on only A$16m with the roofing businesses. The Monier name will remain with Redland.

In the year to end-June, Monier reported sales of A$727m and pre-tax profits, after interest, of A$45m. The roof-tile side contributed A$295m to those sales, and made an operating profit before tax and interest of A$28.5m. Net assets of the roof-tile businesses, before deducting debt, were put at around $157m at the year-end.

The tussle over Monier, Australia's largest roofing tile company, began last May when Equiticorp picked up a stake in Monier and launched a A$657m cash or shares offer. At the time Redland owned 49 per cent of Monier – a stake which dates back to the 1960s – and was supporting a rival offer for its associate from CSR, the Australian sugar, building products and resources group.

CSR subsequently bowed out, and Equiticorp has since picked up 48 per cent of Monier shares. Any chance of control, however, was blocked when Redland raised its stake to 50.1 per cent in July. The two companies have since had negoiations in London and, most recently, in Sydney.

Bavarian bank expands with Italian purchase

BY HAIG SIMONIAN IN FRANKFURT

BAYERISCHE VEREINSBANK, the fifth biggest bank in West Germany, has reached agreement to buy the Milan and Rome offices of First National Bank of Chicago for an undisclosed sum.

The deal, which still requires approval from the Bank of Italy, should allow Bayerische Veriensbank to set up in business by next spring, an official said.

The bank, which is the biggest in Bavaria, already has representative offices in Rome and Modena. If the deal is approved, Bayerische Vereinsbank intends to maintain these operations alongside the two First Chicago offices, which together employ about 48 staff.

A number of German banks have been strengthening their coverage of the Italian market recently, partly with a view to the European Community's planned free market in financial services in 1992.

In the biggest transaction of its kind, Deutsche Bank last year bought Banca d'America e d'Italia for $603m from Bank of America.

James Buchan in New York witnesses the end of one of the bitterest corporate legal sagas in US history

Texaco faces its agonising transformation

THE $3BN truce between Texaco and Pennzoil, which was presented to the court administering Texaco's bankruptcy yesterday, puts an end to one of the most bitter, complicated and expensive legal battles in US corporate history.

However, the plan to reorganise Texaco, which was filed in the Bankruptcy Court in White Plains, New York, yesterday, is also the first stage in what will be a radical and even agonising transformation of both companies.

The transfer of wealth will wipe out more than a fifth of Texaco's $14bn net worth, could force a large-scale disposal of assets and might precipitate a hostile takeover. Mr Carl Icahn, the takeover specialist who yesterday doubled his Texaco stake to almost $1bn, is just one sword hanging over the head of Mr James Kinnear, Texaco's chairman of a year.

"We've moved on from reorganisation," said Mr Wilbur Ross, the investment banker from Rothschild Inc, who is advising the committee of Texaco shareholders at the court. "The focus is on restructuring Texaco."

For Pennzoil, the $3bn payment is so large it would be alarming to anybody but Mr Hugh Liedtke, the burly Okhlahoma oilman who has built Pennzoil – and several other companies – from nothing in the past 35 years. But the payment will still double the gross assets of Pennzoil, which last year earned only $45.4m.

It is an irony of the case that oil prices have fallen so far that Pennzoil can buy more oil with its $3bn today than the $3.4bn it offered for the right to 1bn barrels of Getty Oil in January 1984. That deal was trumped by Texaco's $10.1bn offer for all of Getty Oil, precipitating the legal battle.

However, before either company can address its grand strategy or Texaco emerge from Chapter 11 of the Bankruptcy Code, there are some time-consuming matters to tackle.

Texaco must gain the approval of two thirds of its voting shareholders for the plan. Mr Ross expects support to be overwhelming. About 40 per cent of Texaco stock is in professional Wall Street hands and the 30 per cent rise in its stock price as negotiations hotted up this month "indicates the market's approval."

Mr Icahn holds a further 12.3 per cent. But in case of a defeat at the vote, which should be held in February, Texaco will file with the US Supreme Court for permission to appeal the whole case.

James Kinnear

Texaco will also begin raising cash to finance the settlement, which consists of $3bn to Pennzoil and $2bn to $2.5bn in payment arrears to trade creditors, bankers and bondholders. The group, which reported earnings of $725m last year, has more thant $4bn in cash assets, but much of this is working capital.

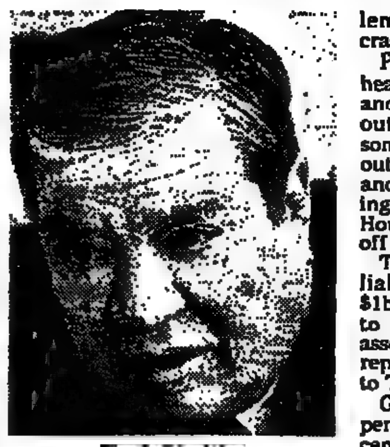
Texaco will probably need to raise about $2bn to $3.5bn in bridging finance, which it will repay over 12 to 24 months through asset disposals. Wall Street is talking about the possible sale of the European refining and marketing operations and Texaco Canada among other businesses.

However, Texaco has already announced more than a simple cashing in of assets. Even before the quarrel with Pennzoil, Texaco was not admired on Wall Street. Its rate of return consistently lagged that of the two US market leaders, Exxon and Mobil, and it was failing to find oil to replenish its reserves. It was to reverse this self-liquidation that Mr Kinnear's predecessor, Mr John McKinley, bought Getty Oil.

Under intense pressure from Wall Street, and Mr Icahn, Mr Kinnear announced on Saturday that Texaco and Morgan Stanley, its investment bank, would launch an "aggressive, imaginative and exhaustive review of every asset and operation."

Mr Ross of the shareholders' committee said yesterday: "Coming out of Chapter 11 is like life after death. Texaco went in burdened with the historic happenstance of a given set of businesses built up over 80-odd years.

"Now they can make rational decisions about what Texaco should look like in the spring of 1988. They have a large mass of assets that may be of more use to somebody else. They could make acquisitions to round other businesses out. They have a wonderful opportunity."



Hugh Liedtke

Mr Icahn, who yesterday bought a further 12.1m Texaco shares at $37 each, was blunt. "It is our belief that Texaco should either undergo a serious restructuring or be sold."

Mr Icahn bought the shares under a right of first refusal from Mr Robert Holmes a Court, the Australian financier who has been troubled by liquidity problems since the stock-market crash in October.

Pennzoil also has its set of headaches. Mr Liedtke, who is 65 and delayed his retirement to see out the litigation, must find some way of keeping the $3bn out of the hands of the taxman and Pennzoil's lawyers, including Mr Joe Jamail, the brilliant Houston trial lawyer who pulled off the $10.3bn damages award.

Tax lawyers say Pennzoil's tax liability could be as high as $1bn. But Pennzoil may be able to reinvest the cash in new assets as if these were merely replacing the 1bn barrels "lost" to Texaco.

Guesses at Mr Jamail's compensation range as high as 20 per cent of the final settlement, or $600m. The salty Mr Jamail denies this figure, but will not say what he will receive. "It's personal," he told a Houston reporter. Like "your sex life."

Even so, Pennzoil may have as much as $2bn available either to distribute to stockholders or to purchase new assets.

Mr Kinnear and Mr Liedtke did not meet to sign their historic agreement in Manhattan on Saturday. They signed identical copies of the same document. But they did speak briefly on the telephone.

They wished each other luck.

Pan Am-Braniff talks may fail

BY RODERICK ORAM IN NEW YORK

TALKS aimed at securing a merger of Pan American World Airways and Braniff appear to be heading for failure because Pan Am's five unions are disagreeing over wage cuts and the practicality of the deal.

Under a conditional pact between Pan Am Corp, the airline's parent company, and Mr Jay Pritzker, chairman of Braniff, a struggling airline, Mr Pritzker has to win by today's deadline labour cost savings worth $200m over the next four years to secure the merger.

In addition to stiff resistance to wage cuts from some unions, employees are growing increasingly resistant to the proposal to merge only the main overseas airline subsidiary of Braniff while leaving Pan Am's profitable commuter airline and Boston-New York-Washington shuttle, in the hands of Pan Am Corp.

They argue that the domestic and overseas operations must remain unified if the airline is to succeed.

Union officials said they believed Mr Pritzker might propose to the Pan Am board later this week a broader deal involving all the company's airline units. This may run into strong opposition, however, from senior management who were planning to take the rump of Pan Am Corp private after Pan American World Airways was merged with Braniff.

The original proposals called for Pan Am to keep the commuter and shuttle operations and Pan Am World Services which provides consulting and ground services to other airlines.

To complicate matters, there are also signs that the bitter dispute between Mr Edward Acker and Mr Martin Shugrue, Pan Am's chairman and vice chairman, is far from resolved. Mr Shugrue had argued strenuously for keeping the company intact and independent.

Santa Fe fails to agree terms

BY OUR NEW YORK STAFF

SANTA FE Southern Pacific and Henley Group have failed to agree on terms for purchase of Henley's 14.7 per cent stake in the railway, natural resources and property group.

Discussions about buying back the shares started after merger talks between the two groups, which would have led to the largest non-oil takeover in US history, foundered on price and regulatory issues 10 days ago.

Santa Fe yesterday reiterated its intention to speed up its own restructuring. It hopes to announce soon the sale for more than $1bn of its Southern Pacific railroad subsidiary, a move forced on it by anti-trust officials in Washington. Coupled with proceeds from other disposals, it would enable Santa Fe to make a distribution to shareholders during the first quarter of next year.

It said previously that the payout would be around $4bn, equal to about $25.50 a share. Henley, a California-based industrial conglomerate, had no immediate comment yesterday on the end of share buyback talks.

If Santa Fe had agreed on a price, it would probably have had to offer the same terms to Olympia and York, the Toronto property and natural resources group which has an 8.2 per cent Santa Fe stake. Olympia and York announced earlier this month that it had decided against a bid for Santa Fe.

But Wall Street is uncertain whether recent developments mark the end of Olympia and York and Henley's interest in Santa Fe, whose share price slipped by $¾ to $47¼. Santa Fe had been holding out for $63 a share cash bid from Henley.

● Singer, the US defence electronics company, says its board believes a $50-a-share tender offer by a group led by Mr Paul Bilzerian, the Florida investor, is acceptable.

Last month, the company's board urged shareholders to reject Mr Bilzerian's bid as inadequate, but has since been unable to find an alternative offer for merger or acquisition.

In announcing its latest decision, the board stopped short of recommending the Bilzerian offer to shareholders, saying it was concerned about the availability of financing.

JAL share sale goes off smoothly

BY CARLA RAPOPORT IN TOKYO

JAPANESE investors failed to reap huge gains on the sale of the Government's $5bn stake in Japan Air Lines, but the offer went off smoothly nonetheless.

JAL's shares had lost more than 22 per cent of their value in the two weeks before the Government's sale of its remaining stake in the airline last week. Some had feared that the lacklustre state of the market would scare off investors.

Even so, the Ministry of Finance yesterday reported that all the 48m shares had been sold at the striking price of Y13,400. Investors could technically begin trading the new shares yesterday. By the end of the day, however, JAL's share price had slipped from Y13,800 to close at Y13,500.

With brokerage fees, this means that any early profit-takers would most likely have been disappointed with their JAL shares.

"It looks like the new JAL shares are turning into an investment," said one Tokyo-based stockbroker yesterday. "It doesn't make sense to sell them now."

The success, from the Government's point of view, however, again underlines the peculiar strengths of the Tokyo Stock Exchange. JAL's shares had reached a peak of Y20,100 in mid-October and in spite of the share price's recent fall, government officials were confident that the issue would succeed.

Officials deny that they can influence the market, but the JAL sell-off seems to indicate that they can help direct the market's movements through consultations with Japan's leading stockbrokers. These consultations appeared to help keep the market relatively steady during the period of the JAL sell-off.

Some say that the Government wanted the JAL price run down before the sale to make the shares more attractive to investors. Even at its lower price, JAL was trading on an astronomical price/earnings ratio of about 350.

Tokyo's Nikkei share index has shed only 15 per cent of its value since its peak reached last October, compared to falls of more than twice that size in London and New York. Foreign investors have been heavy sellers of the Tokyo market fearing that a further collapse in equity prices is looming in Japan.

It remains unclear how long the Ministry of Finance and Japan's leading stockbrokers can support the Tokyo bourse if an increasing number of domestic investors find that the value of their portfolio is going down. Many purchasers of the recent sale of shares in Nippon Telegraph and Telephone, for example, bought the shares on margin. NTT is now trading at about 5 per cent below its selling price.

In the meantime, Japan's stockbrokers remain confident that Tokyo can ride out any more storms.

Spain plans tighter curbs on bank stakes

BY DAVID WHITE IN MADRID

THE TAKING of equity positions in Spanish banks is to come under much tighter control, under legislation proposed by the Socialist Government.

The changes, which give the Bank of Spain the right to block investors seeking to control banks through shareholdings of 15 per cent or more, reflect the concern raised in government circles by this year's series of significant share movements, and in particular the Kuwait Investment Office's direct and indirect purchases into leading Spanish banks.

KIO has since pooled its shares in Banco Central, the largest commercial bank, in a joint venture with the building group, Construcciones y Contratas, with the aim of controlling more than 12 per cent, by far the largest single holding. KIO's Spanish affiliate, Torras Hostench, also became the top shareholder in Banco de Vizcaya before the bank itself bought the shares back.

The Banking Bill, just sent to Congress, where the Socialist majority makes approval a foregone conclusion, obliges any investor seeking to obtain 15 per cent of a bank, either directly or indirectly, to seek prior authorisation from the Bank of Spain. This move, which effectively introduces a fresh barrier in Spain's largely liberalised foreign investment code, is seen by officials as providing Spain with the same defences as those applied in other EC countries, such as the UK.

Anyone buying 5 per cent or more of a bank's capital must inform the bank concerned and the Bank of Spain within 10 days, stating the real holder of the participation.

Banks themselves will be obliged to inform the authorities about participation in their capital by other Spanish or foreign credit institutions and about the shares they in turn hold in other banks.

Siemens, Allied Signal in motor electronics deal

BY ANDREW FISHER IN FRANKFURT

SIEMENS OF West Germany plans to co-operate with Allied Signal of the US in the rapidly growing sector of automobile electronics, with the aim of developing, making and selling new products to the world motor industry.

The two companies said yesterday they had signed a memorandum of understanding aimed at setting up a joint venture in the sector. Growth in the automobile electronics business has been running at between 30 and 25 per cent annually in recent years, Siemens said.

Between them, the two companies have some 8,000 employees in the sector and a turnover exceeding $500m, still very small in relation to their total sales. But the West German company has made clear that it sees large growth potential in this, with the average value of electronics in cars expected to double by 1990.

Siemens and Allied Signal will concentrate on products and systems aimed at increasing safety and comfort, improving driving control and engine performance, and reducing pollution. Each will have 50 per cent of the proposed joint venture, which will include Siemens facilities in West Germany and Italy and those of Allied Signal in the US, Canada, Brazil and France.

So far, Siemens sales of automobile electronics amount to only about DM430m ($264m) out of its total yearly turnover of more than DM51bn. It employs 3,700 in the sector. Through its Bendix Electronics subsidiary, the US company has turnover of $320m and employs 4,200 in the sector. Allied Signal's total sales are around $12bn.

Swiss temps agency sees 25% rise in turnover

BY JOHN WICKS IN ZURICH

ADIA, the Lausanne-based temporary employment concern, expects 1987 turnover to be up by some 25 per cent to about SFr2bn ($1.5bn), accompanied by a further growth in profits.

In 1986 the group — the world's third biggest of its kind — registered an 18 per cent rise in turnover to a consolidated SFr1.6bn, with net earnings up 43 per cent to SFr67.2m.

Adia says that business continues to develop "very favourably." In recent weeks volumes have been at a record level for the autumn season.

At the same time Adia Services, the group's American affiliate, has announced the acquisition of Comp-u-staff, a Baltimore company specialising in data-processing staff and operating seven offices with turnover of about $16m.

Following this takeover Adia now has some 377 offices in the US alone. In all, the group operates from more than 1,000 offices in 17 countries. Among its leading European subsidiaries is Alfred Marks in London.

●Sandoz, the Swiss chemicals group, is to acquire DC-Center Diestcentrum, the Belgian market leader in the dietetic and health foods sector.

With sales of some BFr400m ($11.7m) a year, this will expand Sandoz's activities in the dietetics field following last year's purchase of a stake in Cereal, the French group.

These operations form part of the Basle concern's nutrition division, which booked 1986 sales of some SFr1.04bn. The best-known products from this division are Ovaltine and Wasa crispbread.

Murdoch faces more Australian bid snags

By Chris Sherwell in Sydney

MR RUPERT MURDOCH'S News Corporation yesterday ran into a further obstacle over its controversial plans to acquire a controlling interest in Australian Associated Press (AAP), the country's only domestic news-wire service, and in Australian Newsprint Mills, the only newsprint manufacturer.

In a successful legal move the Trade Practices Commission, the government anti-trust agency, obtained injunctions in the federal court which halt News's proposal to acquire shareholdings in the two companies held by John Fairfax, the rival media group.

Purchase of the stakes would give News 50 per cent of AAP and increase its holding in Reuters, the international news agency. The estimated A$275m (US$195.2m) deal would also give News more than 90 per cent of Australian Newsprint Mills.

Together the proposed sales represent one of several asset disposals designed to reduce the debt burden facing Tryart, the company controlled by Mr Warwick Fairfax who has taken the media group private in a A$2.55bn deal.

The TPC's court action follows its statement earlier this month that News Corporation's proposed acquisitions would be likely to contravene the Trade Practices Act by giving News dominance of a market.

News agreed to a temporary suspension of its plans while it prepared further submissions, and it gave the commission an assurance that it would not proceed with the proposed acquisitions without prior discussion with the commission.

Last week Mr Murdoch said his preference was for AAP's media service to be owned, operated and financed as a co-operative, and News intended that this would still be the case.

As events transpired, the commission failed last Friday to secure an unqualified undertaking from News that it would not proceed with the acquisitions. Yesterday it went ahead and sought the injunctions.

Canada push by Western Mining

By Our Sydney and Montreal Correspondents

WESTERN MINING, one of Australia's largest gold and mineral producers, is extending its overseas interests with a second Canadian mine purchase within a few days.

It said yesterday it would pay C$160m (US$122.5m) for Northgate Mines, a gold and copper producer, and would bid for Norbeau Mines, a mineral exploration company in which Northgate has a 35 per cent stake.

The move follows last week's announcement that it would bid A$92m (US$65.6m) for Seabright Resources, a company with operating mines and reserves in Nova Scotia.

Western's overall aim is to establish a significant exploration and mining operation in Canada, thereby diversifying its interests geographically.

To further its plans it is dipping into A$1.3bn of cash reserves — A$456m from the sale of assets in 1986-87 and A$840m from a rights issue and share placing.

Western said last month its overall share of gold production was expected to be more than 450,000 oz in 1987-88. Among other operations it owns 51 per cent of the Olympic Dam copper-uranium-gold project, and is a leading nickel producer and aluminium smelter.

Northgate bought the two mines in 1981 for C$85m and has improved them. After repayment of bank debt, it will have C$131m available from the deal to be invested in other mining and resource projects. Some of the proceeds may be distributed directly to shareholders.

The two Quebec mines produced a peak 81,500 oz gold in 1986 and 19.9m lb copper plus 111,000oz silver.

Japan grants four licences

THE JAPANESE Finance Ministry said yesterday it would grant securities licences to four more foreign brokerages, Reuter reports from Tokyo.

They are Smith New Court of the UK, Fidelity Investments Brokerage Services (Japan) and Garban, both of the US, and BNP Securities, a British unit of France's Banque Nationale de Paris.

Three issues emerge for Far East placement

BY CLARE PEARSON

THREE new issues emerged in the Eurobond market yesterday. This was an unusual development so late in the year, but all the bonds were designed for placement with specific investors in the Far East rather than for active trading.

First, Mitsui Finance International announced **Wings 4**: a complex A$195.4m deal representing a repackaging of existing bonds in a variety of currencies. It is aimed at institutional investors wishing to reduce their exposure to the Australian dollar.

The bond, which matures in March 1997, priced at 102, is payable and bears 7 per cent interest in Australian dollars. It is secured on a cocktail of of fixed rate bonds denominated in that currency as well as New Zealand dollars, Dutch guilders and sterling, and its redemption amount in US dollars will be calculated according to a complicated formula based on this cocktail.

Late in the day, IBJ International announced two small deals for an overseas unit of **Development Finance Corporation of New Zealand** and **Union Bank of Finland**. An IBJ executive said both of the issues had been preplaced.

DFC's NZ$120m five-year bond may be put, is priced at 100.20 and pays three-month New Zealand bank bill rate less 60 basis points. It will not be listed. Union Bank of Finland's Y5bn 5¼ per cent five-year bond is priced at 101.65.

Elsewhere, trading in the secondary Eurobond market "closely resembled watching paint dry," as one dealer put it, with most market makers having closed their trading books ahead of the Christmas break.

Standard & Poor's, the US credit rating agency, said it might upgrade the debt of **Texaco** to investment grade following the company's weekend proposal to pay Pennzoil, another US oil company, $3bn to settle a judgement won two years ago.

The news had little effect on prices of Texaco's bonds yesterday, although dealers said prices had risen by about 10 points over the last few weeks in anticipation of a settlement of the legal dispute. Yesterday some Texaco bonds were quoted at around 90.

Elsewhere, Eurodollar bond prices were marked around ¾ percentage points higher following gains in the US Treasury bond market on the back of lower oil prices.

Euroyen bonds were also marked higher by about ¼ point following gains in the Japanese government bond market. Dealers said these seemed to be fuelled by expectations that Nomura Securities would be active in the Tokyo market as it was moving to a new trading room yesterday.

Longer-dated Eurosterling bond prices rose by about ¾ point in reaction to a better tone in the gilt market. Shorter-dated issues however were inactive.

In the D-Mark market, domestic bond prices rose by about ¼ point. The 6¾ per cent federal government bond was fixed at 99.60, some 30 basis points higher than on Friday. Details of a new repurchase agreement which will drain DM7.8bn are expected today. The most recent rate on repurchase agreements has been 3¼ per cent.

Prices of D-Mark Eurobonds rose by about ¼ point. Some buying interest, mostly focussed on shorter-dated bonds, emerged.

In the Swiss franc foreign bond market, prices stayed firm in unusually high turnover for the time of year. A 5 per cent World Bank issue closed ½ point higher at 104.

Wirtschafts-und Privatbank is expected to announce today a SFr100m 10-year 4¾ per cent bond for **Bayerische Vereinsbank Overseas Finance**, priced at 100¾.

Swiss Bank Corporation yesterday increased to SFr125m from SFr100m a recent four-year bond for **Occidental Petroleum**.

Packer pulls out of Ariadne purchase

MR KERRY PACKER, the Australian media magnate, and a Japanese businessman have withdrawn from a planned acquisition of 18.7 per cent of Ariadne Australia, an investment company hit hard by the October stock market collapse, **AP-DJ reports from Sydney.**

Last month Mr Packer, chairman of Consolidated Press Holdings, and Mr Harunori Takahashi, president of EIE Development, entered a conditional agreement to buy the Ariadne stake for A$93.4m (US$66.6m). But Oxted, their joint venture company, said yesterday it had ended the agreement because certain conditions were not met in time.

Although it did not disclose these, the original agreement said completion of the sale depended on Oxted examining Ariadne's affairs, obtaining finance from Bank of New Zealand, and approvals from government and from Ariadne's secured creditors.

The stake was to have been acquired from Judge Corporation of New Zealand, an Ariadne associate.

Ariadne is a property, resources, financial services and industrial concern that was one of Australia's fastest-growing companies before the market collapse.

Its financial operations include a joint venture investment bank in the US with Mr William Simon, a former US Treasury Secretary. Through this it controls three savings and loan associations in California and Hawaii.

Oxted indicated yesterday it still might be interested in negotiating for a stake in Ariadne or for some of Ariadne's assets, which are being sold to reduce borrowings. An Oxted official was reported as saying Mr Simon has made an "informal proposal" that "could lead to further discussions" with Oxted.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on December 21

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	95⅛	95⅝	+0⅛	+1⅛	9.48
All Nippon Air 9⅝ 97	100	92⅞	93⅜	−0⅛	+1½	10.59
American Brands 8⅞ 92	150	97	97½	−0⅛	+1⅜	9.62
A/S Eksportfinans 7⅞ 93	100	91⅛	91½	+0¼	+0⅝	9.62
A/S Eksportfinans 7¼ 92	150	92¼	93⅛	+0⅛	+0⅛	9.38
Barc. Bk. Fin. 10¼ 89	200	†102⅛	102⅝	−0⅛	+0⅛	8.89
Belgium 9⅛ 92	400	99⅛	99⅝	+0⅛	+0⅛	9.37
British Telecom 7⅛ 96	250	86	86½	+0⅛	+1⅛	10.04
British Telecom 8⅞ 94	150	97	97½	+0⅛	+2⅛	9.43
Canada 9 96	1000	96⅞	97⅛	0	+1	9.56
Canadian Pac 10¼ 95	100	†102⅞	103⅜	0	+0⅛	9.92
C.C.C.E 7⅛ 91	115	93⅛	94⅛	0	+1	9.03
C.N.C.A 7¼ 91	150	93⅞	93⅞	+0⅛	+1⅛	9.29
Coca-Cola Ent. 8¼ 90	100	†99¼	99¾	0	+1¼	8.44
Credit Lyonnais 9 91	200	99⅞	100⅛	+0⅛	+0⅛	9.02
Credit National 7⅞ 92	100	93¾	94¼	+0¼	+1⅛	9.09
Credit National 7¼ 91	150	93¾	94⅛	+0⅛	+0⅛	9.11
Denmark 7⅛ 92	900	91¾	92¼	+0⅛	+0⅛	9.50
Denmark 8¼ 91	300	97⅜	97⅞	+0⅛	+0⅛	9.07
E.E.C 7 91	100	93⅞	94⅛	+0¼	+1	8.86
E.E.C. 7¼ 93	250	91⅞	92⅛	+0⅛	+1⅛	9.21
E.E.C 8¼ 96	100	91¼	91¾	+1⅛	+2⅛	9.75
E.I.B. 7⅞ 93	100	91⅞	92⅛	+0⅛	+1⅛	9.40
E.I.B. 9⅜ 97	150	97⅛	97⅝	+1⅛	+2	9.79
Finland 7⅞ 97	200	87½	88	+0⅛	+2	9.98
Finland 7½ 93	200	91⅛	91½	+0¼	+1	9.54
Ford Motor Cred 11⅞ 90	100	105⅝	106⅛	+0½	+0⅛	8.26
Gen Elec Credit 10¼ 00	200	†104⅝	105⅛	+0⅛	—	9.55
G.M.A.C. 8 89	250	98⅞	99⅜	+0¼	+0¼	8.54
G.M.A.C. 8¼ 89	200	100⅛	100½	+0¼	+0⅛	8.01
Hoesch 8¼ 97	100	†88¾	89¼	+0¼	+1¼	10.12
Hoesch 7⅞ 92	100	†95¼	95¾	+0¼	+1	8.66
Hoesch 7⅞ 94	300	†92⅞	93¼	0	+1¼	9.39
Liberty Mutual 8½ 96	150	†90⅜	90⅞	+0⅛	+0⅞	10.17
L.T.C.B of Japan 8 91	100	96	96½	0	+0⅛	9.23
L.T.C.B.of Japan 8 97	200	†86¼	86¾	+0⅛	+2	10.36
Merck-Benz Cred 8¼ 92	100	98¼	98¾	0	+0½	8.64
Mitsubishi fin. 7⅞ 93	100	90⅝	91	+0¼	+1	10.03
Mutual America 7⅞ 92	100	†93½	94	+0¼	+1	9.55
Norway 7¼ 91	300	94⅝	95⅛	+0⅛	+1⅛	8.84
Pepsico Inc 7⅞ 93	200	91⅜	91⅞	+0⅛	+1½	9.44
Prudential Crp. 8⅜ 94	125	96	96½	+0⅛	+1⅞	9.52
Qantas Airways 10⅛ 95	140	102	102½	+0½	+1⅞	9.92
Rep. of Italy 9 90	1000	100¾	101¼	+0½	+1⅛	8.55
Saab Scania 9½ 91	125	101⅞	102⅜	+0¼	+1⅛	8.68
Saskatchewan 10¼ 92	100	105	105½	+0⅛	+1½	9.16
State Bk S Aust 9¼ 93	100	98⅜	98¾	+0¼	+1⅛	9.62
Swedish Expt.Crd.7¼ 91	100	93⅞	94⅜	+0½	+0⅞	9.07
Swed Exp Cred 10 92	100	103½	104	+0⅛	+1	8.91
Sweden 7 91	250	94	94½	+0½	+1⅛	8.83
Sweden 7 92	250	92¾	93⅛	−0⅛	+0½	9.09
Sweden 8¾ 96	200	94½	95	+1⅛	+2⅛	9.69
Sweden 8½ 92	200	97⅜	97⅞	+0⅛	+0⅞	9.12
Taiyo Finance 7¼ 94	100	89⅛	89⅝	+0⅛	+1¼	10.16
Toyota Mtr.Cred.7⅞ 92	150	92¼	92½	+0¼	+0⅞	9.48
Victorian Rep 11⅛ 92	150	107	107½	+0¼	+1½	9.48
World Bank 7 92	300	†93¼	93¾	−0¼	+1	8.95
World Bank 9 97	300	95⅛	95⅝	+1⅛	+2¼	9.75
Yasuda Trust Fin 8½ 93	100	94⅛	94⅝	+0½	+1½	9.85

Average price change... On day +0⅛ on week +1⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	100⅛	100⅝	—	—	5.93
Avis Fin.SVS 5⅞ 92	100	†99¾	100¼	0	0	5.87
Bank of Greece 5⅞ 92	300	97¾	98⅛	—	—	5.87
Bank of Tokyo 5¼ 93	100	†103	103½	0	−0¼	5.02
Central BK. Turkey 7 92	200	†102	103	0	+0¼	6.37
Degussa Int. 6⅛ 97	200	96¾	97½	+0⅛	+0½	6.59
E.I.B 5½ 98	150	93⅛	93⅞	+0¼	0	6.37
E.I.B 6 97	300	97⅞	98⅝	0	0	6.25
E.I.B. 6⅛ 96	300	99⅛	99⅞	+0¼	+0¼	6.19
E.I.B. 6⅛ 97	400	99⅛	99⅞	+0½	+0⅛	6.19
E.I.B. 6¾ 95	300	103⅞	104⅜	0	+0¼	6.18
Euro.Coal& Steel 5⅞ 97	175	96⅛	96⅞	0	+0¼	6.39
Eurofima 6¼ 96	100	100⅞	101⅜	0	+0¼	6.05
Elec De France 5¾ 97	300	95½	95⅞	+0⅛	+0⅛	6.39
I.A.D.B. 6 97	200	96½	97¼	0	−0⅛	6.45
IBJ 5⅞ 92	100	†102½	103	0	0	5.21
Japan Finance 5¾ 97	100	94⅝	95⅜	+0¼	+0¼	6.49
Ireland 6½ 97	300	†98¾	99¼	0	+0⅛	6.64
Korea Dev BK 6⅝ 93	100	100⅞	101⅜	+0¼	+0½	6.39
Malaysia 6 6¼ 94	150	98	98½	0	+0½	6.58
Oesterr.Kont.BK.5⅝ 92	200	†101¾	102¼	0	0	5.14
Portugal 5¾ 92	150	101⅞	102⅜	−0¼	+1⅞	5.18
Portugal 6⅝ 95	150	102⅞	103⅜	+0⅛	+1	6.11
Royal Insurance 5½ 92	300	†101	101½	0	0	5.16
Statoil 6¼ 97	200	†96¼	96¾	0	−0¼	6.76
Soc Cent Nuclear 7¼ 95	150	104⅝	105⅜	+0⅛	+1⅞	6.38
Stewens 5½ 96	100	†97	97½	+0½	+1	5.92
Tokyo Elec. Power 6 97	300	†96¾	97¾	0	+0⅛	6.40
World BK. 6¼ 97	600	99¾	100	+0⅛	−0¼	6.26

Average price change... On day +0⅛ on week +0¼

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5⅛ 96	100	†98	98½	+0½	−1¼	5.88
Asfinag 5 02	150	†98	98¼	0	+0⅛	5.18
Bayer W/W 2½ 02	250	*†94⅞	94⅞	0	−0⅛	2.94
BBL W/W 2¾ 97	100	†82	83	+0¼	+1	5.10
Elec.De.France 5 07	100	†98¼	98¾	−0¼	+0⅛	5.12
E.I.B. 4¾ 97	200	†98½	99	−0⅛	+0⅛	4.91
E.I.B 4⅝ 97	200	†98½	99	+0¼	−0⅛	4.79
Esso Gmbh 5 99	100	†98	98¼	+0½	+0¼	5.19
Ireland 5 02	150	†92	92¼	0	+0½	5.81
Newfoundland 5⅛ 02	150	†99½	100	+0⅛	0	5.15
Polly Peck 6 92	75	†97½	98	0	+0⅛	6.63
Prov.of Manitoba 4¾ 02	200	†100	100¼	−0⅛	0	4.73
Prov. of Quebec 5 03	200	†98½	99½	0	+0⅛	5.09
Qantas Airways 4¾ 97	110	†93¾	94¼	0	0	5.56
SHV Holdings 4¾ 94	100	†100	100¼	+0⅛	+0⅛	4.72
Tiroler 4¾ 97	100	†100	100½	0	0	4.71
TNT 5 95	100	†99½	99¾	−0⅛	−0⅛	5.06
Woolwich B/S 4½ 92	120	†98¼	98¾	+0¼	+1⅞	4.86
World Bank 5 02	200	†96½	97½	+0⅛	+1⅛	5.30

Average price change... On day +0⅛ on week +0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 4⅞ 94	45	96¾	97⅛	+0⅛	+0⅞	5.20
E.I.B 4⅝ 94	40	97⅛	97½	+0⅛	+0⅞	5.14
Elec. De France 5⅛ 94	20	99⅞	100⅛	+0⅛	+0⅞	5.14
Kansai Electric 4⅞ 94	60	95¾	96¼	+0⅛	+0¼	5.38
Norway 4¼ 92	60	97¼	97⅝	−0⅛	+0¼	4.95
Rep. of Italy 5¾ 92	150	103⅛	103⅝	−0⅛	+0½	4.80
Sweden 4⅞ 92	50	97⅞	98¼	−0⅛	+0⅛	4.87
World Bank 5½ 92	50	103	103⅜	0	+0¼	4.71

Average price change... On day 0 on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Aegon 5¾ 91 FL	100	100⅛	100⅝	−0⅛	+0⅛	5.59
Aegon 8¼ 89 FL	100	102⅞	103⅜	0	−0⅛	6.01
Air Products 6¼ 91 FL	100	100⅞	101⅜	+0⅛	0	6.34
Alg. Bk. Ned. 5¾ 91 FL	100	100¼	100¾	−0⅛	0	5.59
Alg. Bk. Ned. 7¼ 89 FL	150	102⅞	103½	+0¼	−0¼	5.92
Alg. Bk. Ned. 8 89 FL	200	102⅛	102¾	−0⅛	−0¼	5.65
Barc. Bk. 10¼ 97 £	250	97⅛	97½	+0¼	+0⅛	10.71
BP Capital 13¾ 92 A$	75	†100⅝	101⅛	+0⅛	+0¼	13.42
Creditanstalt 14⅛ 90	60	†103⅜	103⅞	+2	+2⅛	12.25
Denmark 7¾ 92 ECU	100	100¾	101¼	+0⅛	+0⅛	7.45
DG Fin. Co. 13¾ 90 A$	50	†104½	105½	−0¼	+0¼	11.44
DG Fin. Co. 14 90 A$	75	†102	103	-0	+0⅛	12.74
DG Finance 14⅛ 92 A$	50	†103	104	+1	+2	13.20
Deutsche Bank 9⅞ 97 £	75	†98½	99	+0⅛	+0⅞	10.07
Deutsche Bk.14¼ 92 A$	100	†103	103½	−0⅛	+0⅞	13.15
Dresdner fin.13⅞ 91 A$	100	†100¾	101¼	−0¼	+0⅛	13.41
Electrolux 8 89 FL	60	102⅜	103	−0⅛	−0⅛	5.83
E.I.B 8⅝ 93 LF	1000	†102⅛	103⅛	0	0	7.97
Euratom 7⅛ 97 ECU	145	92½	93⅛	−0⅛	0	8.52
Euratom 11½ 88 FL	150	102½	103	0	0	0.05
Eurofima 7½ 92 FL	50	104	104⅝	0	0	6.34
Eurofima 17½ 89 NZ$	50	†101½	102½	+0½	+1¼	16.13
Finland 6 91 FL	100	99¾	100¼	0	+0⅛	6.00
Ford.Mtr.Cred.13¾ 91A$	75	98¾	99⅜	+0⅛	+0½	14.05
G.M.A.C. 9 92 £	50	99⅝	100⅛	+0⅛	+0¼	9.01
G.M.A.C. 9¼ 92 C$	75	95⅝	96⅛	0	+1⅛	10.43
G.M.A.C Aus.Fin.14 90 A$	50	100⅝	101	−0⅛	0	13.59
Halifax BS 10⅛ 97 £	100	98¼	98¾	+0⅛	0	10.62
Heineken NV. 6½ 91 FL	150	†102¾	103¼	—	—	5.42
Honda Mtr.W/W 3⅞ 90 FL	100	†107	109	0	0	0.29
Hunter Dgas. N.V. 7 91 FL	50	101⅛	101⅝	+0⅛	0	6.49
Imp Chem Inds 10 03 £	100	93¾	94¼	+0¼	+0⅛	10.80
Inv.In Ind.Inl 10 93 £	60	100¼	100¾	+0⅛	0	9.85
Leeds B.S 10½ 91 £	50	101⅝	102⅛	+0⅛	+0⅛	9.76
Mort.Bk.Denmark 6 91 FL	150	99¼	99¾	0	0	6.14
Mtge. Bk. Dn. 6¾ 91 FL	100	101⅞	102	−0⅛	0	6.16
Nat.Australia 14 92 A$	50	101¾	102⅜	−0½	+0½	−0.29
Nat. West.Bk.13⅞ 92 A$	50	†99⅝	100⅛	0	+0⅛	13.14
Nationwide BS 10⅛ 93 £	75	100⅛	100⅝	+0¼	+0⅛	10.00
New Zealand 7¾ 93 ECU	200	97⅝	98⅛	−0⅛	+0⅛	8.26
Oesters.Ktbk.13⅝ 94 A$	75	101¾	102⅜	−0⅛	+0⅛	13.11
Prudential Fin.9⅜ 07 £	150	86⅝	87⅛	+0½	−0½	11.02
S.D.R. 7¾ 95 ECU	90	97⅛	97⅝	0	+0½	8.24
Tsthouse Forte 11⅛ 90£	50	102⅞	103⅜	+0⅛	+0¼	9.49
Thyssen 7¼ 90 FL	50	102⅝	103¼	+0⅛	+0⅛	6.04
Wessanen 6¾ 90 FL	50	101¾	102¼	0	−0¼	5.94
World Bank 13⅞ 92 A$	100	†100⅝	101⅛	0	+0⅛	13.05

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alberta 3 93	.0312	100.02	100.12	13/06	8.17
Alliance & Leic.Bld 94 £	.08	99.11	99.16	21/01	10.27
Belgium 91	0	100.08	100.17	19/02	7.19
Britannia 5 93 £	0⅛	99.57	99.64	8/01	10.37
Chase Manhattan Corp 91	0¼	99.00	99.25	22/02	7.19
Chicorp 98	†0¼	96.85	97.10	29/02	7.69
EEC 3 92 DM	†0	100.49	100.54	22/02	4.31
Halifax BS £ 94	.1	99.38	99.43	8/02	8.97
Invt. In Industry £ 94	0	99.47	99.56	24/02	9.44
Midland Bank 01 £	.1	96.26	96.39	11/02	8.97
Milk Mkt.Brd. 5 93£	0¼	99.34	99.39	30/12	10.37
New Zealand 5 97 £	.07	98.96	99.39	18/02	9.06
New Zealand 5 01	0	98.70	98.80	4/02	7¾
Shearson Lehman Hlds 91	†0¼	98.87	99.37	8/02	7.62
United Kingdom 5 92	0	100.06	100.12	7/01	8.19
Woodside Fin. 5¼ 97	0	98.70	98.80	28/01	7.69
Woolwich 5 95 £	0⅛	99.22	99.27	19/02	9.12

Average price change... On day +0.01 on week +0.01

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02	8/87	62.	97⅞	98¼	+0⅛	23.53
Alco Health 6¼ 01	7/86	26.25	71¾	72¾	+1¾	24.36
American Brands 7¾ 02	9/87	56.7	94¼	95¼	+0¼	27.16
American Can Co. 5½ 02	4/87	66.75	62⅞	62⅞	+0⅛	70.28
Ashikaga Bank 2⅞ 02	4/87	967.	113	114½	+0⅛	0.04
Asics 5 92 DM	12/83	438.6	146¼	147¾	−1½	−3.42
CBS. Inc. 5 02	†4/87	200.	88¼	89¾	+0¾	14.52
Fuji Hvy Inds 3 00	8/85	676.	154	155⅝	+0½	2.37
Fujitsu 3 99	5/84	1106.	195½	197⅛	+6⅛	1.37
Gunma Bank 2⅞ 02	4/87	808.	134	135½	−0⅛	−1.01
MCA INC 5½ 02 US	9/87	69.62	68½	69¾	−0⅛	45.27
Minolta Camera 2¼ 94DM	2/86	1004.	86¼	87¾	−0½	40.40
Mitsui trust 2⅞ 01	10/86	1903.	126½	128½	−0⅞	−1.57
Next PLC 5¾ 03 £	11/87	4.3	102⅞	103⅝	+0¼	55.40
Nippon Elec 2⅞ 00	1/85	1295.	292½	293½	+4	0.95
Oki Elec Ind 3½ 99	†10/84	805.	162	163	−1	−6.19
W.R. Grace 6¼ 02 US	9/87	42.12	74¼	75½	0	34.22

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Economic Forestry at £1.25m

By Mike Smith

Economic Forestry Group, a company which manages woodlands, plants trees and markets timber, yesterday reported a 34 per cent increase in pre-tax profits for the year to September.

The £1.25m achieved was £151,000 ahead of a forecast made by the company when it joined the Unlisted Securities Market in July.

Earnings per share were 8.48p (6.69p in the previous year before exceptional items) and a final dividend of 1.75p makes 3p for the year. Shares in Economic Forestry rose 7p to 95p.

Mr John Campbell, managing director, said the company was well placed to take advantage of opportunities which had arisen as a result of the recent storm in the south-east of England.

Group turnover in 1986-87 was 15 per cent ahead at £35.26m.

FT to help launch Canadian national financial daily

By Raymond Snoddy

The **Financial Times** and Mr Conrad Black, chairman of the Daily Telegraph, are to be partners in plans to launch Canada's first national financial daily newspaper early next year.

The FT, part of Pearson's information and entertainment interests, has signed a letter of intent to acquire 25 per cent of The Financial Post, a leading Canadian publisher of business and financial news. The Financial Post, at present a weekly with a circulation of 198,000, is to be converted into a daily from February.

Toronto Sun Publishing Corporation has agreed to buy The Financial Post division from Maclean Hunter for C$46m. The FT will acquire its 25 per cent interest for C$11.5m and a company controlled by Mr Black is to acquire 15 per cent of The Financial Post for C$6.9m. Toronto Sun Publishing will hold the remaining 60 per cent.

Mr Frank Barlow, chief executive of the FT, said yesterday: "I am delighted to have the chance to participate in the launch of Canada's first daily business newspaper, as well as investing in one of Canada's leading providers of financial information."

As well as its weekly business newspaper, The Financial Post publishes financial and business magazines and has interests in provision of business and financial information and in local radio.

The purchase is part of a new strategy of taking stakes in other financial dailies around the world to help maximise the exploitation of the FT's database. This will go ahead in parallel with the growing internationalisation of the FT itself which is printed in London, Frankfurt and New York and plans to begin printing near Lille, in France, next year.

In the wake of the stock exchange crash the FT is now also looking at the possibility of expansion in Australia.

Talks are under way with Mr Holmes A Court's Bell Group on the possibility of the FT acquiring control of the Australian Financial Review, the Australian financial daily. A preliminary report on a possible acquisition went before Pearson's executive directors committee yesterday.

The cover price of the FT will rise from 40p to 45p from January 2. The last increase in price was in December 1985. Mr Barlow yesterday blamed the rise on increases in newsprint prices of more than 20 per cent over the past two years.

BP shares rise as KIO steps up stake

By Philip Coggan

FULLY PAID shares in British Petroleum rose 13p yesterday to 251p after the Kuwait Investment Office announced that it had increased its stake in the company to 16.06 per cent.

The KIO had no comment on the purchase but analysts were speculating that it could increase its stake to as much as 25 per cent. Its holding breached the 15 per cent level last week and it now has to declare any share purchases within 24 hours.

Meanwhile, the Bank of England confirmed that its buy-back offer for the partly paid shares would close on January 6. The market mid-price for the partly paid shares yesterday was 70½p, just above the 70p buy-back price, but many market makers were bidding below the support level.

The Stock Exchange has announced special arrangements for investors who wish to take up the Bank of England's offer. The terms of the Bank's offer require investors to return their allotment letters with their acceptance forms.

That might threaten the rights of those investors who buy shares between now and the close of the Bank's offer - since they would be dependent on sellers delivering the acceptance letters in time. But, in such cases, the Stock Exchange is allowing buyers to force sellers to accept the offer on their behalf.

Such rights only apply to those who buy shares before December 29 and who give written notice to the seller's broker by December 31.

● BP Espana is to acquire Dismark SA and the worldwide rights to the brand Gior. The purchase, from Roig SA, will considerably strengthen BP's presence in the European household and personal care markets.

Arco increases its stake in Britoil to 14.7%

BY MAURICE SAMUELSON

Atlantic Richfield (Arco) has increased its stake in Britoil, UK's largest independent oil company, from 7.4 per cent to 14.7 per cent. The US group is British Petroleum's main challenger in the battle for control of Britoil.

The news came on the eve of today's meeting of the Takeover Panel which will rule on BP's plan to launch a full £2.27bn bid for Britoil, despite the Government's declaration last Friday that it would use its "golden share" in the oil company to prevent any bidder gaining boardroom control. BP holds 29.9 per cent of Britoil.

Under the Panel's existing rules, BP's bid could not become unconditional. A bidder needs to have acquired more than 50 per cent of the voting rights, which would not be possible because of the golden share.

The BP bid plan follows an agreement between Britoil and Arco under which the US group could eventually own 49.9 per cent of Britoil.

Meanwhile, Mr Nigel Lawson, Chancellor of the Exchequer, was urged again yesterday to use the Government's share in Britoil to block BP's advances. The call came from the Scottish Nationalist Party which regards the Glasgow-based Britoil as a Scottish company.

● Britoil has been awarded its first operatorship in Indonesia, where it already has stakes in three exploration areas. The operatorship and 100 per cent interest are in the Sula block, totalling 25,000 sq kms, equivalent in size to about 120 North Sea blocks.

Sharp & Law in £26m buy

BY FIONA THOMPSON

Sharp & Law, Bradford-based shopfitting group which came to the USM in May this year, is to buy **BFN Group** for £26.45m. BFN, one of the UK's leading specialist shopfitters, is a wholly-owned subsidiary of Hoogovens Group, Dutch steel company.

An initial £16.41m will be paid with a further £8.69m payable for the discharge of inter-group loans. In addition there will be a payment of £1.35m for certain freehold and leasehold premises.

Sharp hopes to raise £16m by a six-for-five rights issue. It is offering 10.29m cumulative redeemable convertible preference shares yielding 7.01 per cent gross at 166p per share.

BFN has three principal divisions, one of which, the MFL leasing finance operation, Sharp intends to sell, so reducing bank debt by £6m.

Sharp & Law has forecast pre-tax profits of £1.2m for the year to December 31, an increase of 47 per cent over the previous year. BFN has forecast pre-tax profits of £2.6m for the same period, after charging £320,000 of central management charges and inter-company rents.

Flat display by Buckley's

BY LISA WOOD

CHANGES IN acccounting policies reduced pre-tax profits of **Buckley's Brewery,** the South Wales brewer in which Brodian has a controlling stake, to £304,000 for the half year to September 26 compared with £557,000 in the same period last year.

Turnover was £7.2m (£6.6m) and the interim dividend is maintained at 0.9p.

Brodian is the nominee company representing the personal interests of Mr Guy Cramer and Mr Peter Clowes who bought their initial 27.57 per cent stake in Buckley's from Bestwood, the property and financial services group. They narrowly won control of Buckley's in October following a £29.2m cash bid.

Buckley's directors said the pre-tax profit was reduced by exceptional provisions of approximately £300,000 which it considered prudent following its comprehensive review of the accounting policies adopted by the former board.

An extraordinary debit of £220,000 was made up of £310,000 in defending the takeover bid less the associated tax credit of £90,000.

The brewery, with some 154 pubs concentrated in South Wales, is expected to expand into a wider leisure field which could include hotels, restaurants and wine bars.

Lasmo lifts Enterprise Oil stake to 25%

By Mike Smith

London and Scottish Marine Oil yesterday announced that it had bought 1m shares of fellow oil independent Enterprise Oil to raise its stake in the company to 25.36 per cent.

The purchases are part of a topping up operation designed to restore Lasmo's stake to the 29.9 per cent level it had earlier this year before Enterprise acquired oil interests of ICI. Rumours of a merger are rife but the issue is complicated by the Government owning a "golden share" in Enterprise. Shares in Enterprise rose 10p to 258p.

Insurance duo to transform Sperati focus

By Nick Bunker

An abrupt change in direction from buttons to insurance broking was signalled yesterday by C.A. Sperati (The Special Agency), one of the stock market's smallest quoted companies.

The tiny button and zip merchant said it had invited onto its board Mr George Boden and Mr Tony Keys, both former directors of Stewart Wrightson, the Lloyd's insurance broker. Sperati's shares jumped £3 to close at £13.

The arrival of Mr Keys and Mr Boden is to be a prelude to a foray into insurance broking led by the two men, who resigned from Wrightson after its recent merger with fellow broker Willis Faber.

"This will inevitably mean making acquisitions of insurance brokers," said Mr Keys. "We will be targeting UK retail broking for corporate risks, and certain specialist areas of the Lloyd's market."

At Wrightson, Mr Keys was group development director, while Mr Boden was best known for managing UK retail broking operations.

Their arrival is the biggest event in the recent history of Sperati, 63 per cent of whose shares are owned or represented by Mr John Alexander, a former Hill Samuel director.

The company yesterday revealed pre-tax profits of £40,088 for the year to October 31, on turnover of £654,301.

Sperati plans to enter into an option agreement to buy the entire capital of Ansford Management, an insurance consultancy owned by Mr Keys and Mr Boden. This will require the issue of 9,500 Sperati shares.

Martell bid inquiry gets under way

By George Graham in Paris

The French Treasury has begun its inquiry into the disputed takeover of the old-established brandy producer Martell.

The Martell family last week announced that it had agreed to sell control of the company to the Canadian drinks giant Seagram, but the UK group Grand Metropolitan subsequently said that it wanted to make a higher offer.

Because either deal would involve control passing to a foreign group, French government approval is required. Bankers last night said they thought the Treasury would take some time to decide.

Martell shares remained suspended yesterday, after last being quoted at FFr2390.

Attwoods deal

Attwoods, the acquisitive waste disposal and quarrying group, is to acquire Eastern Waste Industries, a privately owned company based in Annapolis, Maryland. The British company will pay $15.6m for Eastern, plus 3.5 times Eastern's pre-tax profits for 1987 in excess of $2.2m.

Of this, just over $14.7m will be paid in the form of American depository receipts. Further ADRs will be issued next year.

North of Scotland

Net asset value of the **North of Scotland Investment Company,** was 24.14p at November 30, a fall of 1.46p from a year earlier.

The half year to end-November saw gross revenue fall to £68,332 (£127,471). Earnings were 0.01p (0.31p).

Dawson seeks approval to buy its own shares

BY MIKE SMITH

Dawson International, the textiles manufacturer, was one of three groups which announced yesterday that they are joining the growing list of companies to seek shareholder approval for buying in their own shares.

The other two were **Helical Bar** and **Southend Stadium,** both property companies.

The buy-in trend has been sparked by October's stock market crash which has reduced some share prices to a level where companies can improve earnings per share by purchasing their shares in the market.

Dawson is seeking approval to buy up to 15m shares, representing 9.8 per cent of the equity. It says it will pay no more than 5 per cent above the average of the middle market quotations for the 10 days prior to the day of purchase.

Southend Stadium, which is changing its name to Southend Property Holdings, is asking for authority to buy up to 2m shares, 4 per cent of the total. Helical Bar wants to purchase up to 10 per cent of both its ordinary and convertible preference

Meanwhile **J Rothschild Holdings,** investment company, said it had purchased a further 1.33m of its shares

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Batleys ......int	0.5	Feb 25	0.5	-	2.3
Buckley's Brew ......int	0.9	-	0.9	-	3.2
Economic Forest ......fin	1.75§	-	-	3	-
Peel Holdings ......int	1.75	Apr 6	1.5*	-	4.75*
TR Trustees ......int	1	Feb 1	0.95*	-	2.2*

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ♦Unquoted stock. ♥Third market.

Allied believes Bond stake benevolent

Sir Derrick Holden-Brown, chairman of Allied-Lyons, said yesterday that he believed the intentions of Mr Alan Bond's Bond Corporation towards Allied-Lyons, in which it holds a stake of more than five per cent, to be benevolent.

Last week Allied-Lyons disclosed that Mr Bond had increased his 2.8 per cent stake, built up before the stock market crash, to 5.01 per cent.

Sir Derrick said he had spoken to Mr Bond who had told him that he had increased his holding to average down the price he had paid for Allied shares acquired before the crash.

Bond Corporation is understood to have bought its 2.8 per cent stake at an average of some 440p, on which it is now showing a substantial book loss.

Sir Derrick said he could not rule out the possibility of Mr Bond buying more Allied shares if he was seeking to average down the price of his stake. "I have not asked him how far he is going," said Sir Derrick.

BET pays £11m to boost plant hire

BET has made two acquisitions worth £11.2m in cash and shares to add to its plant hire company, BET Plant Services.

The bigger purchase is that of Port Talbot Plant, a specialist in aerial work platforms with an annual turnover of some £4m. Cost is £7m comprising £1.5m cash and the issue of 2,548,146 shares.

Redispace is the other company. It offers hire and sale services nationwide and earns some £3m in annual turnover. Cost is £4.2m to be satisfied by the issue of 1,958,489 shares.

GKN acquires German balance

GKN, which holds a controlling 75 per cent interest in Viscodrive GmbH, has acquired from Zahnradfabrik Friedrichshafen (ZF) the remaining 25 per cent of the equity. Viscodrive produces viscous contol units which provide greater traction and better road-holding in cars and utility vehicles.

M&G IN FAVOUR OF HONGKONG DEAL AFTER BEHIND-THE-SCENES TALKS

Midland's link- up approved

BY RICHARD WATERS

Midland Bank and Hongkong and Shanghai Banking Corporation yesterday cleared the final hurdles to what is widely regarded as a trial marriage of the two banks. But only after behind-the-scenes bargaining with M&G, unit trust management group, which controls more than 8 per cent of Midland's shares.

At an extraordinary meeting yesterday, Midland announced that it had received 151m proxy votes in favour of the deal, and only 400,000 against. Shareholders who voted at the meeting, which was concluded in less than 20 minutes, echoed this overwhelming majority.

Meanwhile Lord Young, Secretary of State for Trade and Industry, said that the Hongkong Bank stake would not be referred to the Monopolies and Mergers Commission.

Mr David Tucker, M&G deputy managing director, said that M&G objected in principle to a company issuing shares to new rather than existing shareholders. But after discussions with Midland and the disclosure of more details, it voted in favour.

Midland said of the M&G discussions: "It would be wrong to say that they influenced the wording of the deal, but clearly we listened to them."

The deal, which involves Hongkong Bank acquiring 14.9 per cent of Midland for at least £383m, does not need the approval of the Bank of England. Under the Banking Act, which came into force this autumn, the Bank can only block stakes of more than 15 per cent in a British institution.

The two banks, which will merge parts of their operations in Europe, Asia and Canada, have said they will go no further down the merger road for at least three years. "We are in no way selling the bank," Sir Kit McMahon, Midland chairman, told shareholders yesterday

Sutcliffe Speakman at £0.57m

BY HEATHER FARMBROUGH

CONTINUING recovery at **Sutcliffe Speakman**, the engineering and carbon manufacturing company, helped boost pre-tax profits by 89 per cent to £572,000 for the six months to September 30.

This was achieved despite a strike by one of the company's overseas suppliers. Sutcliffe Croftshaw, the engineering and fabrication business also lost eight weeks' production owing to its move from Leigh, Lancashire, to Bold.

Turnover rose by 20 per cent from £8.6m to £10.3m. Interest charged fell from £204,000 to £129,000. Earnings per share were 3.1p (2.3p). The company has not paid a dividend for the last eight years.

Sutcliffe's carbon operations at Leigh are being modernised and extended over the second half, at a cost of approximately £2.25m. The new kiln is expected to double capacity and to start to pay back within 15 months.

Slack demand by European gravure printers was offset by a high level of orders in the USA for Croftshaw. Overheads were reduced substantially in the chemical trading business.

A marketing arrangement with Elders Resources will enable Sutcliffe to sell carbons in Australia and Eastern Europe, where demand is particularly strong for carbons in industrial and water treatment. Elders bought 9 per cent of Sutcliffe's shares last month.

Mr Nick Wilkes, chief executive said that further similar arrangements were unlikely : "We would rather paddle our own canoe."

Barneby Cheney, a carbon company in the US which was also bought last month, will continue to be run by the original management. Sutcliffe is merging its own sales company into Barneby to form a new company, Barneby and Sutcliffe Corporation.

"We would expect further US acquisitions," said Mr Wilkes, but he added that the company would be unlikely to look further than environmental cleaning businesses.

Sutcliffe has been turned round from losses to profits by new management under Mr Wilkes, a former commodity shipper, who bought into the group when it acquired his former company, Wynmouth Lehr in 1985.

● comment

Decaffeinated coffee, cigarette filters and gold recovery are unlikely bedfellows, but Sutcliffe has a 12 per cent market share of the carbons used in these products. It is less well represented in commodity carbons used for water treatment and decolourisation, which together account for around 65 per cent of the world's total carbon market. All these markets are growing, particularly in the US where demand for decaffeinated coffee has reached epidemic proportions. Two of the largest West German producers are pulling out of Eastern Europe, so the Elders distribution deal is well timed. Add the benefits of modernisation and better management, and Sutcliffe's prospects look good. The company should report at least £1.8m (£1.2m) for the year. A prospective rating of nearly 13 is not cheap relative to the sector, but the company's long term prospects may be more exciting than most.

Peel grows to £4.7m and lifts interim

A NEAR £900,000 advance in pre-tax profits to £4.7m for the half year ended September 30 1987 was announced yesterday by **Peel Holdings**, the Rochdale-based property group.

After much heavier tax £995,000 (£24,000) earnings were down to 16.26p (19.38p). But the interim dividend is lifted to 1.75p (1.5p).

Mr John Whittaker, chairman, said the setback in the stock market had not affected the group's business to any significant extent. He had every confidence in its ability to maintain the growth trend in income and assets.

The first of the five yearly rent reviews was completed with very encouraging results. Given the group's development activities over the past five years, a great number of rent reviews would follow in the near future, the chairman stated.

On the housebuilding side, there were now 2,305 plots, undeveloped and with planning permission.

Demand for industrial property was increasing substantially, particularly in the Gloucester and Worcester area. So far this year, overall rental income had risen by £800,000 per annum.

On the residential side, sales were running at record levels and profitability was further increased.

Mr Whittaker was anticipating a substantial uplift in asset values if planning application on land in Andover was successful.

That and other applications, combined with an increase in overall value of retail superstore portfolio, would give rise to an extraordinary uplift in net asset value, the chairman asserted.

Burton accountancy change

BY RICHARD WATERS

Burton Group has taken the unusual step of producing separate balance sheets for its property and financial services companies to disclose more about these operations, following criticism of its off-balance sheet activities in the past.

But Burton's move is unlikely to suit the accounting purists, who are currently fighting to bring such "related" companies into companies' main accounts. Also, the Burton treatment will be blocked if the Department of Trade and Industry presses ahead with a planned change to the law on consolidated accounts.

By treating the two as related companies rather than subsidiaries, keeping them off its balance sheet, Burton shows borrowings of just £259.7m, against shareholders funds of £523.2m.

The £378.1m borrowed by Burton Group Financial Services, its credit card arm, and £70m by High Street Property Investments, which owns £100m of property leased back to Burton, are relegated to a note to the accounts.

Finance director Michael Wood said yesterday that Burton has no liability for the property finance, while it only has a "minimal" liability for the debts of the financial services arm.

The financial services operation is entirely separate from the main business of the group and so should not be consolidated, he said.

The Department of Trade and Industry has proposed a change in the law that would force a company to treat another as a subsidairy if it can "determine the financial or operating policies of hte subsidiary".

The DTI's proposed rule could result in companies which own more than around 30 per cent of another being forced to include it in its accounts, warned the Institute of Chartered Accountants of Scotland in a letter to the DTI last week.

Benlox ends with 1.1% of Storehouse

By Nikki Tait

Benlox, the former suitor of retail combine Storehouse, which lapsed its "demerger" bid on Friday, yesterday announced that it controlled just 1.11 per cent of its target's shares by the third close. This represented a small reduction from the 1.86 per cent which it claimed at the second closing date in early December.

Benlox's own dealing subsidiary, Keatway, held 1.25m Storehouse shares (0.31 per cent). Moreover, the company directors, interests associated with directors, and parties in concert with Benlox announced during the course of the bid that they held around 2.3m shares (0.57 per cent).

A formal reaction from Storehouse to the lapsed offer said that the company was very pleased at the "overwelming" rejection and that it could now concentrate on implementing strategies for the group.

W.H. Smith deal

W.H. Smith & Son is paying £5.7m in cash and new shares to acquire 32 retail travel agencies currently operated by the Ian Allan Group.

In addition, Smith will contribute £300,000 in cash towards Ian Allan's anticipated reorganisation costs and the expenses of running the business until completion of the purchase.

Ian Allan Travel had a £32m turnover in the last financial year and the company forecasts trading profits of around £1m for the first year of its ownership of the business.

Hodgson purchases

Hodgson Holdings, USM-quoted funeral director, has acquired four more funeral directors for a total of £800,000 cash, including £212,000 for properties. The purchases will add about 800 funerals a year making Hodgson's total more than 26,000.

The companies involved are J.E.Greathead & Son of Doncaster, Woods Funeral Service of Bury, A.W. Armour & Sons of Ayrshire, and Ford Ennalls Funeral Services of Walsall.

Bunzl to expand transportation side

BY MAGGIE URRY

Bunzl, the paper, packaging and distribution company, announced three more acquisitions yesterday with a total purchase price of £16.4m.

All three businesses will fit into Bunzl's transportation division.

The largest is Robson's Distribution Services which Bunzl is buying from United Glass for £14m. Robson's will continue to carry that company's business, largely delivering glass bottles to the whisky industry, under a long-term contract. Work for United Glass is expected to represent a third to two-fifths of Robson's business.

Robson's assets – mainly 10 warehouses, 200 vehicles and 400 trailers – are valued at £6m. Pre-tax profits for the year ended last month are expected to have been £2.5m.

Of the other two acquisitions, together costing £2.4m, the larger is Thompson Jewitt which runs regular freight services to 50 European cities. It is unusual in having a customs-approved clearance depot at its headquarters in Nottingham.

The third is Clarence and Co, which services high street clothing retailers, unpacking, pressing, racking, warehousing and delivering imported garments. This will add some specialist skills to Bunzl's existing garment distribution operation.

Batleys held in check by higher interest

Batleys, Yorkshire-based cash and carry wholesaler, saw pre-tax profits slip back from £652,000 to £628,000 in the 26 weeks to October 31 due to the significant rise in interest charges which are up £112,000 to £152,0000.

The directors said that because of the aggressive expansion policy, the company was beginning to incur much heavier interest charges. It had moved into Scotland for the first time, opening a warehouse at Edinburgh on November 1.

Turnover for the period rose from £112,226 to £122,108 and the operating profit from £692,000 to £780,000. Tax took £236,000 (same) leaving attributable profits of £336,000 (£390,000) for earnings of 2.56p (2.72p) per 10p ordinary.

The interim dividend is maintained at 0.5p.

Astra Trust reduces loss

Astra Trust substantially reduced its pre-tax losses from £740,000 to £89,000 on turnover up from £2.35m to £2.76m for the six months to October 31 1987.

Loss per 5p share for the engineering, metals, leisure and property group (formerly Astra Industrial Group) was reduced to 0.09p (1.08p). There was a total trading profit of £96,000 (56,000).

The directors said significant efforts had been made in bringing the group back to profitability and although results for the six months ended showed a loss, they were confident that it had "turned the corner" and that trading results would continue to improve.

The financial services division had made trading profits of £52,000 since its start up in April and offered numerous opportunities for expansion.

The engineering division with trading profits of £87,000 (£94,000) had made considerable progress not truly reflected in the results. Action was being taken to improve the Ibis garment press and laundry machine manufacturing sector which recorded a trading loss of £38,000 (£2,000 profit). The loss in the leisure division was reduced from £30,000 to £15,000 while property made a £10,000 profit (£10,000 loss).

The directors were confident that the company could sustain a high level of organic growth, primarily through the financial services division, and the group would adopt an aggressive acquisition policy when opportunities arose.

There was no exceptional items – last year's debit was £489,000 to cover slow moving stock and written-off lease expenses – and there was no extraordinary debit against a corresponding £239,000 representing the loss on the sale of the Tipton factory.

BOARD MEETINGS

TODAY
Interims- Amalgamated Financial Services, Pieton International
Finals- Isle of Man Enterprises, Percom

FUTURE DATES
Interims-
Hambro Currency .. Jan 19

Distributor Fund	Jan 21
Hambro Currency Fund	Feb 2
Mansfield Brewery	Dec 23
Wiggins	Dec 31
Finals-	
Anglia Television	Jan 19

Brussels to tighten beef support

BY TIM DICKSON IN BRUSSELS

THE EUROPEAN Commission is planning to tighten the screw further on Europe's beef producers after last week's controversial and unexpected decision to change the rules for intervention buying

The additional measures – which will impose new limits on the Community's system of guaranteed meat purchases – are likely to be unveiled in February, along with the Commission's eagerly-awaited farm price proposals for the marketing year 1988/89.

The annual price package (traditionally announced in January at the latest) is now certain to be delayed until after the emergency Summit of EC Heads of Government scheduled for *February 11* – but as one senior Commission official confided yesterday, "When it comes there could well be some nasty surprises for the beef sector."

Major headache

The reason is that the beef regime has become a major headache for policy makers in Brussels with spending already well above this year's budgetary allocation and stocks in storage likely to exceed 850,000 tonnes by the end of this month (compared with 576,000 tonnes at the end of 1986).

Action was taken by EC Farm Ministers exactly a year ago to cut guaranteed prices – by 13 per cent – but largely because of this the Commission decided earlier this year not to propose any further detailed reforms in the context of its wide-ranging plan for agricultural budget stabilisers, contenting itself with a commitment to come forward with further changes at the end of 1988.

Alternative outlet

The first visible sign that the *situation is more urgent* came last week when the Commission (acting through the relevant management Committee, which comprises representatives of the member states), suddenly announced that as from yesterday it would stop buying-in the better quality hind quarters of animals and concentrate on forequarters.

This switch, which officials in Brussels estimate could save the budget around Ecu100m because fore quarters are cheaper and hold their value better, does not normally take place till the spring, but what has upset producer organisations and certain member states (which nevertheless formally endorsed the move) was the apparent *lack of* warning and consultation provided by the Commission.

French traders in particular are thought to be complaining bitterly about losses they have suffered on advance contracts.

The Commission's view is that the rising level of Community stocks shows that despite changes introduced in December 1986 the intervention system is being used as a more or less permanent alternative outlet to the market place and *not*, as Brussels wishes, as a safety net during occasional periods of market imbalance.

It is conceded that that the beef market has been affected *this* year by *the latest cuts* in milk quotas, which have led to widespread cow slaughterings by farmers anxious to keep within their individual production limits. But as a Commission official said yesterday, "this is really a secondary factor given that the rate of culling has been quite modest in some member states."

Further measures

This is why further measures are now being discussed in Brussels and will almost certainly be presented for approval by member states in the context of next year's prices package. The debate has been given added impetus by the new enthusiasm for applying budgetary *limits to* each agricultural sector, a key feature of the whole stabilisers approach.

What is not yet clear – and has not yet been finally decided – is whether the beef intervention system is in need of a radical overhaul or whether a more modest tinkering will suffice.

Mild steps being considered include further technical adjustments to the support system, including a removal of the 2.5 per cent increment paid on top *of the basic support figure which* was agreed some time ago after pressure from the French.

A more radical possibility might be the adoption of the sort of rules which appear to be *working well in the dairy sector*, namely a cutting-off of open ended guaranteed buying once a certain quantity – 180,000 tonnes in the case of butter – had been reached. At that point a tendering system would be introduced, though given the unique nature of the regime its application would be different.

The nature and extent of the Commission's proposals will depend on future price and stock levels. Market prices would appear to be reasonably stable, if *not rising*, and *healthy calf* prices paid in the UK by Dutch and French buyers suggest that the outlook *could* improve next year. The absence this year of big sales of intervention beef to customers like Brazil and the Soviet Union, which helped to reduce stocks in 1986, is less encouraging.

EC farmers' incomes down 3.6 per cent

BY TIM DICKSON

FARM INCOMES in the European Community are set to fall by 3.6 per cent in real terms this year, according to new estimates published by the European Commission in Brussels yesterday.

The projection for 1987, which compares with a modest 0.7 per cent real improvement in 1986, reflects an overall decline throughout the Community in agricultural prices combined with more or less stable volume, and confirms that measures already taken to reform the Common Agricultural Policy are having an impact on producers.

The anticipated fall represents the weighted average of changes in all the member states except Portugal and thus disguises considerable national variations. Farmers in West Germany have suffered the biggest setback with a 17.2 per cent income drop this year (after a 10 per cent rise in 1986) while their counterparts in Ireland, Spain, and the Netherlands have enjoyed increases of 11.7 per cent, 7.7 per cent and 2.7 per cent respectively (after falls of 10 per cent and 4 per cent and a rise of 7 per cent in 1986).

The figures for net value added at factor cost produced by the Community (and adjusted to take into account the change in the agricultural labour force and the *rate of inflation*) are based on national data, which a Commission official admitted yesterday are often open to different interpretation by member states themselves.

Income statistics published in *Paris recently, for example*, show that French farmers have been better off this year, against the Commission's estimate of a 3.2 per cent real drop in farm incomes in that country.

Comparisons over the medium term, meanwhile, show that real farm incomes in 1987 were more or less on a par with the 1980 level (expressed as an average of the years 1979 to 1981 inclusive).

Well above average increases are reported for Luxembourg and Spain, (of the order of 30 per cent or more) and Denmark and the Netherlands (between 20 and 30 per cent) "there has been no sustained growth over the period in the United Kingdom, Belgium or France" while in West Germany and Italy there has been a *decline* of around 10 per cent.

Only Italian producers have suffered a *significant fall* if year on year fluctuations are ironed out by taking the mean of 1985 to 1987.

Spain to import aluminium following strike

BY DAVID WHITE IN MADRID

SPAIN WILL need to import about 6,000 tonnes of aluminium a month while work goes on to restart the paralysed smelter at San Ciprian on the northwest coast, according to Mr Fernando *Rubio, chairman of the state*-controlled Industria Espanola del Aluminio (Inespal).

Mr Rubio said the company, which is Spain's sole aluminium producer, had started contacts *with foreign groups on possible* arrangements to swap Spanish-produced alumina for finished aluminium. Production of alumina at the San Ciprian complex is unaffected by the breakdown, *caused last week when workers* interrupted the continuous electrolytic production process in protest against the shipment of dangerous chemicals from a wrecked freighter.

In an interview yesterday, Mr Rubio said the stoppage was *expected to last six months* but that the company was looking into ways of completing work earlier in order to take advantage of favourable world market prices.

He said the company, which was heading for its first ever profit, hoped to recover from insurance companies the estimated Pta 16bn ($145m) cost arising from damage to the plant *and lost earnings. It believed* that an "irrational" and "unforeseeable" *event of this kind* was covered by its accident policy.

The plant accounts for 55 per cent of Spain's aluminium production capacity of 350,000 tonnes a year. Inespal's other two plants at La Coruna and Aviles, each producing about 80,000 tonnes annually, would not be able to raise output to compensate for the loss of San Ciprian's 190,000 tonnes a year, Mr Rubio said.

Inespal has taken steps to dismiss more than 100 employees for failing to maintain minimum services during the protest, *which was over the use of* a company wharf to load chemicals *from the shipwrecked vessel* Cason. It has also announced plans to take legal action against the works committee and to seek lay-offs for 574 of the 800 people working in the aluminium section.

Mr Rubio said Inespal, in the last year of a three-year restructuring plan for the industry, had shown pre-tax profits of Pta 2.5 bn up to November and was *planning new investments* at San Ciprian, including an increase in alumina capacity. He strongly denied claims by members of the works committee that the company already planned to *cut production at the complex*, completed in 1980.

Bank wins tin crisis court claim

By a Financial Times reporter

A CLAIM by Kleinwort Benson, the London merchant bankers, that it was entitled to recover £12,262,323 loan and interest from the Malaysian Mining Corporation under the terms of "letters of comfort," given as part of a loan to a wholly owned subsidiary, was upheld by a High Court judge yesterday.

Mr Justice Hirst, sitting in the Commercial Court, said when the tin market collapsed in 1985 the Corporation made it abundantly clear that it was no longer its policy to ensure that its subsidiary, MMC Metals, "is at all times in a position to meet its liabilities" under the loan arrangements as set out in the letters of comfort.

That, said the judge, was a plain breach of contract and Kleinwort Benson were entitled to *judgment for the* amount claimed.

He said it had been agreed that *Kleinwort* would remit to the Corporation any recovery they might make in the liquidation of MMC Metals or, alternatively, assign their rights in that liquidation *in a manner* to be agreed.

The judge said it had been of paramount importance to Kleinwort that MMC should ensure that MMC Metals was at all times in a position to meet its liabilities under the facility arrangements.

Speculative

Leaving aside any question of catastrophe, commodity markets like tin were of their very nature speculative and volatile, and prone to yield sharp and substantial.

The original facility was over *three times MMC Metals'* paid-up capital and the extended facility almost seven times. They were provided, without security, entirely for the purpose of furnishing working capital for such operations in the tin market.

It was thus hard to imagine anything of greater commercial importance than a contractual binding ability to have recourse to the holding company should the subsidiary default, he said.

The letters of comfort were an undertaking that, now and at all times in the future, so long as MMC Metals was under any liability to Kleinwort under the facility arrangements, it was and would be the Corporation's policy to ensure that MMC Metals was in a position to meet those liabilities, said the judge.

LME WAREHOUSE STOCKS
(Change during week ended last Friday)
tonnes

Aluminium standard	-3,650	to	36,425
Aluminium high grade	-3,850	to	55,300
Copper grade A	-7,600	to	39,725
Lead	-450	to	18,800
Nickel	-138	to	2,856
Zinc	-425	to	28,925
Tin	-5	to	19,470
Silver (oz).	+140,000	to	19,868,000

The peculiar economics of farm land pricing

FARMER'S VIEWPOINT

By John Cherrington

GIVEN THE current plight of the European agricultural industry a student of fundamentals – I believe that is the phrase – might expect the UK farm land market to be as bearish as it ever has been since the last depression. Yet the year-end estate agents' reports generally paint a rather encouraging picture. Mind you, these people are not given to pessimism. Their business depends on finding purchasers and they will clutch at any optimistic straw which may help towards this end.

First the bad news. About 20 per cent of the cereal acreage is already redundant to market demand and, while cereal *yields* maintain the present rate of increase, a further 2 per cent of *the acreage will become surplus* to requirements each year.

Nor is the surplus restricted to cereals. It is significant that in the discussion document published last week, Mr John MacGregor, Britain's Agriculture Minister, said grassland devoted to beef is in line for set-aside as well.

The figures are well supported *statistically and I believe them to* be right in theory. In practice, however, few farmers take any notice of them.

This disregard is partly traditional. I can never remember a *time when investment in land* looked very attractive from an objective point of view, yet farmers have always invested simply because they like owning their own land. So, it appears, do the commuters and the retired who wish to live in the country.

Much of the present demand for farms comes from those who think it cheaper to buy a farm with a decent house and perhaps sell off the land or farm it in partnership with a neighbour.

This demand accounts for many of the smaller farms which change hands. In addition, however, some surprisingly large blocks are being sold at prices which would be hard to justify economically, and these are usually purchased by farmers.

Some recent cases illustrate common motives. As a result of sales for development these farmers had a large capital sum which they wished to roll over into land again in order to avoid capital transfer tax. Three of them bid for the same farm which brought the price up to well over £2,000 an acre – a good price at the best of times. Each of them had enough land but by adding in an extra acreage at no real cost to themselves they felt they were reducing their fixed costs.

One has to be a farmer to appreciate this manoeuvre. Most business men would count the cost of the purchase of the extra land *in terms of the interest* which could otherwise be earned by the capital sum. *But farmers* would see it as the ideal way in which to reduce their overall land costs without it actually costing them anything.

Fixed costs are a most important *element in farm accounts* but are very unevenly distributed. I know many farmers who, thanks to inheritance or good luck, have no fixed land costs at all. Their only charges are those *for the capital needed to run* their farms, for the machinery and livestock, most of which can be covered by current earnings.

I know exactly how they view the situation and were I to be as *fortunately placed* I would do exactly the same. I would not, as have a couple of other aquaintances, have turned my farm into a leisure centre with self-catering accommodation, indoor swimming pools and jacuzzi.

Many years ago I almost bought, as part of a land deal, a caravan site which was showing quite a good return. But before I signed up I *made* some enquiries and found that every weekend the police had to be called in to settle fights and other disputes as wives got mixed up and so on. I gathered that, as the owner, I would be responsible for behaviour on the site.

As a farmer I had had no experience in dealing with these problems. Had I desired to be a hotel keeper I would have trained for it from my early days.

It is worth underlining here that buying land, even at today's so-called depressed prices, is no bonanza for those without disposable capital.

This is made clear in the latest review by the Agricultural Mortgage Corporation. Even at a price of £1,500 an acre, the review shows, land carries an annual rental for interest charges alone *of about £180 an acre*. Small wonder that there is little enthusiasm for the proposed set-aside offer, which seems to fall well short of that figure.

Apart from the support given *to land prices* by farmers wishing to roll-over and so on, the situation is not quite as gloomy as the statistics suggest.

Cereal output figures are somewhat distorted by the 1984-85 harvest return of 26.5m tonnes, 4m tonnnes more than the average for the previous 5 years and 2m tonnes clear of the next highest. The official estimate of last *year's harvest, provisionally* fixed at 21.6m tonnes, is *now* believed to be too high by at least 1m tonnes. *As result there* is a very good trade for all grains, well above the expectations of traders, which has blunted farmers' apprehensions of surpluses on the market.

In the livestock sector there is a very strong trade with the Continent for calves and cow beef, partly due to the herd reductions following the imposition of quotas on milk production.

There are large quantities of beef in intervention stores, but these are mainly of cow beef and they are bound *to shrink* before long. There is also a very good outlet for sheepmeat to the Continent, particularly to France.

The key to the whole food commodity sector is of course the world grain balance, but even here the surpluses do not seem to be as permanent as they once did. There have been heavy shortfalls in a number of rice harvests and these have had to be replaced by wheat and *maize*.

It is quite on the cards that UK farmers, with their rather haphazard approach to conventional agricultural economics, may well have got things right and could well be in line for a recovery from the present depression which, except *for a minority* of over-borrowed farmers, has hardly touched them at all.

Cocoa trader files for bankruptcy

BY ANN CHARTERS IN SAO PAULO

THE CORREA RIBEIRO group *from Bahia, a leading exporter of* cocoa from Brazil's north-east region and the owners of a retail chain, have filed preliminary bankruptcy proceedings to seek court protection from creditors *for two years for Correa Ribeiro* SA Comercio Exterior, the export trading company, and another company that runs the retail operations.

The group, active in the cocoa trade *for 61 years*, was once Brazil's largest exporter of cocoa beans. Its commodity exporting *company ranked 18th* in the country, based on reported 1986 operating turnover of Cr 424m (US$31.2m at year end exchange rate) and *net* profits of Cr 15m.

Correa Ribeiro had reorganised its administration in an effort to revert losses which reportedly reached Cr1bn ($14.8m at a current exchange rate) in primarily financial expenses.

According to a trader in the Bahia market, the company is believed to have little outstanding *with the farmers and should* be able to ship what exports have been contracted. Its company's financial difficulties were known in the market and are not expected to cause a drop in the *state s total volume* to be exported since the firm's share had declined recently.

Brazil's north-east cocoa producing region has suffered a drop in production due to recent *droughts which drove up* domestic prices of cocoa beans.

WORLD COMMODITIES PRICES

LONDON MARKETS

COCOA PRICES closed near their highest levels since they went into a nosedive after the International Cocoa Organisation failed to agree on measures to reactivate its price support mechanism at the beginning of this month. The March contract rose by £11 a tonne to close at £1,074 a tonne, supported by price fix buying against old physical contracts, plus reports of Eastern European enquiry for various 1988 shipments and grades, dealers said. Sentiment was further boosted by news of a dock strike whioch started on Friday in Lagos, and by market talk that the Ivory Coast crop may fall short of some estimates. Traders may also have been influenced by news from Accra that the managing director of the Ghanaian Cocoa Marketing Board said West African nations were planning action to halt the cocoa price slide. In contrast coffe prices fell, reflecting a softer tone *in New York*.

SPOT MARKETS

Crude oil (per barrel FOB January)		+ or -
Dubai	$15.15-5.20y	
Brent Blend	$15.95-6.20	-0.225
W.T.I.(1 pm est)	$15.60-5.65	-0.50
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$163-165	-3
Gas Oil	$143-145	-2
Heavy Fuel Oil	$70-71	+1
Naphtha	$131-133	-2.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$479.50	-0.75
Silver (per troy oz)♣	677c	
Platinum (per troy oz)	$498.25	+5.25
Palladium (per troy oz)	$119.50	+0.50
Aluminium (free market)	$2050	+110
Copper (US Producer)	132¾-140c	-9¾
Lead (US Producer)	42c	
Nickel (free market)	380c	+30
Tin (European free market)	£3780	-35
Tin (Kuala Lumpur market)	15.96r	-0.06
Tin (New York)	318.50c	-2.00
Zinc (Euro. Prod. Price)	$860	
Zinc (US Prime Western)	44.375c	
Cattle (live weight)†	103.44p	
Sheep (dead weight)†	197.49p	
Pigs (live weight)†	74.94p	
London daily sugar (raw)	$226.40v	+0.40
London daily sugar (white)	$231.50v	+1.50
Tate and Lyle export price	£230.50	+0.50
Barley (English feed)	£111.00z	-2.50
Maize (US No. 3 yellow)	£135.50	
Wheat (US Dark Northern)	£94.50u	+1.00
Rubber (spot)♥	62.00p	-0.75
Rubber (Jan) ♥	64.75p	-0.50
Rubber (Feb) ♥	64.50p	-0.50
Rubber (KL RSS No 1 Jan)	272.50m	-1.50
Coconut oil (Philippines)§	$550.00w	
Palm Oil (Malaysian)§	$485.00w	
Copra (Philippines)§	$370.00z	
Soyabeans (US)	£157.00z	
Cotton "A" index	75.95c	
Wooltops (64s Super)	484p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. w-Dec/Jan. v-Jan/Feb. z-Jan. y-Feb. u-Apr/May † Meat Commission average fatstock prices. * change from a week ago. ♥ London physical market. § CIF Rotterdam ♣ Bullion market close. m-Malaysian/Singapore cents/kg

COCOA £/tonne

	Close	Previous	High/Low
Dec	1044	1035	1045 1038
Mar	1074	1063	1074 1064
May	1097	1080	1098 1084
Jly	1117	1100	1118 1105
Sep	1138	1119	1135 1125
Dec	1160	1144	1160 1148
Mar	1185	1169	0 0

Turnover: 2511 (3590) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for December 18: 1356.33 (1353.05) .10 day average for December 21: 1355.48(1365.38).

COFFEE £/tonne

	Close	Previous	High/Low
Jan	1206	1213	1214 1205
Mar	1235	1241	1240 1231
May	1257	1258	1261 1251
Jly	1273	1277	1278 1268
Sep	1293	1293	1295 1285
Nov	1306	1310	1309 1305
Jan	1335	1328	0 0

Turnover: 2584 (4138) lots of 5 tonnes
ICO indicator prices (US cents per pound) for December 18: Comp. daily 1979 115.42 (115.34); 15 day average 115.27 (115.33).

SUGAR $ per tonne

Raw	Close	Previous	High/Low
Mar	197.40	199.40	201.00 196.80
May	196.60	198.40	199.40 196.20
Aug	197.00	198.20	199.80 196.00
Oct	197.20	199.40	200.20 197.00
Dec	198.80	190.80	0 0
Mar	202.80	204.00	0 0
May	204.00	195.00	0 0
White	**Close**	**Previous**	**High/Low**
Mar	233.00	234.00	234.50 230.00
May	237.00	238.00	238.00 234.90
Aug	241.00	243.00	242.00 237.00
Oct	241.00	242.00	242.00 237.00
Dec	242.00	243.00	0 0
Mar	246.00	246.00	0 0
May	249.00	250.00	0 0

Turnover: Raw 2343 (6116) lots of 50 tonnes; White 1714 (3747).
Paris- White (FFr per tonne): Mar 1280, May 1302, Aug 1330, Oct 1323, Dec 1340, Mar 1370.

GAS OIL $/tonne

	Close	Previous	High/Low
Jan	140.75	143.50	141.25 138.50
Feb	136.50	140.00	137.50 134.75
Mar	132.50	136.75	132.75 131.00
Apr	129.25	135.75	130.50 129.00
May	128.00	133.00	129.75 128.00
Jun	130.50	134.50	130.75 129.50

Turnover: 5410 (7877) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Jan	113.60	114.00	113.60 113.55
Mar	115.00	115.10	115.00 114.65
May	117.25	117.15	117.25 116.80
Jly	120.00	120.05	120.00 119.80
Sep	103.40	103.40	103.40 103.40
Nov	105.55	105.55	105.55
Jan	108.30	108.45	108.40 108.30
Barley	**Close**	**Previous**	**High/Low**
Jan	107.20	107.00	107.25 107.15
Mar	108.95	108.80	108.95 108.80
May	110.50	110.50	110.60 110.50
Sep	97.85	97.85	97.85 97.85
Nov	100.35	100.35	100.35 100.35
Jan	102.50	102.60	102.50 102.50

Turnover: Wheat 284 (294) , Barley 48 (40) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 1,100 tonne
Cash	2030-50	2010-30		2040-60		
3 months	1860-90	1860-80		1880-5	1865-75	3,163 lots
Aluminium,99.5% purity (£ per tonne)						Ring turnover 36,425 tonne
Cash	1100-5	1093-8	1110	1108-10		
3 months	1015-6	1010-7	1018/1008	1015-7	1008-8	52,081 lots
Copper, Grade A (£ per tonne)						Ring turnover 36,775 tonne
Cash	1682-7	1615-20	1695/1680	1688-90		
3 months	1420-2	1380-2	1445/1408	1432-3	1422-4	76,543 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1600-20	1530-50		1620-40		
3 months	1390-400	1330-40		1400-10		39 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	671-3	673-6		672-4		
3 months	684-6	686-9		685-7		617 lots
Lead (£ per tonne)						Ring turnover 5,825 tonne
Cash	353-5	359-60	368/367	358-9		
3 months	348-9	346-7	353/348	350.5-1.5	348-8	12,405 lots
Nickel (£ per tonne)						Ring turnover 1,884 tonne
Cash	4500-10	4480-90	4480/4470	4505-10		
3 months	4365-70	4360-5	4410/4350	4340-50	4360-400	9,372 lots
Zinc (£ per tonne)						Ring turnover 7,400 tonne
Cash	473-3.5	469-70	474/473	469-70		
3 months	472-2.5	470-3	472/469	469-9.5	471-1.5	12,852 lots

POTATOES £/tonne

	Close	Previous	High/Low
Feb	107.0	102.50	
Mar	90.0	87.00	
Apr	145.4	145.80	146.1 145.0
May	159.0	158.90	
Nov	92.0	85.50	
Feb	100.0	97.50	

Turnover: 101 (102) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Feb	137.50	137.50	
Apr	132.50	131.00	
Jun	122.00	122.00	
Aug	119.00	118.50	
Oct	118.50	118.50	118.50
Dec	122.00	121.00	

Turnover: 5 (63) lots of 100 tonnes.

FREIGHT FUTURES £/index point

	Close	Previous	High/Low
Jan	1272.0	1259.5	1272.0 1255.0
Apr	1289.0	1280.0	1292.0 1275.0
Jly	1147.5	1140.0	1147.5 1147.5
Oct	1247.5	1242.5	1247.5 1247.5
Jan	1235.0	1245.0	1235.0 1235.0
BFI	1260.0	1259.5	

Turnover: 92 (207)

TEA

There were 29,718 packages on offer in this week's London auction including 5,400 packages in the offshore section, reports the Tea Brokers' Association. Brighter Assams again met useful competition and frequently gained 5-10p. Mediums were irregular but plainer types came in for more enquiry near the close and were sometimes considerably dearer. Bangladesh teas ruled firm. Best liquoring East Africans were the feature of the sale and prices were 10-20p higher with dusts particularly strong. Mediums were also 4-8p up. Central Africans were irregular but selected lines advanced. Offshore teas met strong demand with prices firm to 8p dearer, more for selected best. Quotations: quality 186p a kg.(178P); medium 125p (114p); low medium 90p (88p).

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	479¼-479¾	262¼-262¾
Opening	479¾-480¼	261½-262
Morning fix	481	262.44
Afternoon fix	480	262.18
Day's high	481-481½	
Day's low	479-479½	
Coins	**$ price**	**£ equivalent**
US Eagle	493-498	269½-272½
Mapleleaf	493-498	269½-272½
Britannia	493-498	269½-272½
Krugerrand	478-481	261-263
1/2 Krug	249-258	136½-141¼
1/4 Krug	124-132	68-72¼
Angel	492-497	269½-272¼
1/10 Angel	49-54	26¾-29½
New Sov.	112¾-113¾	61½-62¼
Old Sov.	112¾-114¼	61½-62½
Noble Plat	506-518	276-283.45

Silver fix	p/fine oz	US cts equiv
Spot	369.35	677.25
3 months	377.85	691.10
6 months	386.95	705.15
12 months	404.95	733.35

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.5%)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
1850				94
1950			46	
Copper (Grade A)	**Calls**		**Puts**	
Strike price $ tonne	Jan	Mar	Jan	Mar
2600				261
2500			139	
Copper (Grade A)	**Calls**		**Puts**	
Strike price £ tonne	Jan	Mar	Jan	Mar
1550			29	

US MARKETS

Energy futures continued to be very active today reports Drexel Burnham Lambert. Speculators dominated the early part of the day, while commission house and fund buying rallied the market later on. In the precious metals, gold, silver and platinum were all quiet with narrow trading ranges. Copper again outperformed its counterparts by posting new contract highs. Sugar and coffee weakened slightly due to trade selling. Cocoa firmed slightly on trade buying. In the grain markets, soybeans and bean oil were up based on higher cash prices. Corn and wheat were mixed on light volume. Pork bellies, and cattle markets were weaker on predictions of better weather conditions.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Dec	479.6	479.8	488.0	478.9
Jan	480.4	480.7	0	0
Feb	483.7	484.0	485.0	483.1
Apr	488.8	489.9	490.3	489.2
Jun	495.5	495.8	498.5	495.2
Aug	501.8	501.9	502.0	502.0
Oct	508.0	508.3	507.9	507.8
Dec	514.4	514.7	515.9	513.0
Feb	521.0	521.3	521.5	520.5

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Dec	495.2	500.3	0	0
Jan	496.2	501.3	501.8	495.0
Apr	504.2	509.3	508.0	504.0
Jul	512.2	517.3	517.4	513.5
Oct	520.2	525.3	523.5	522.0
Jan	528.2	533.3	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Dec	679.7	678.7	679.0	676.0
Jan	680.5	677.5	677.5	677.0
Feb	685.5	682.5	685.0	685.0
Mar	691.0	688.0	692.0	685.5
May	700.8	697.9	702.0	695.0
Jul	710.5	707.3	712.0	705.5
Sep	720.1	717.5	0	0
Dec	735.1	732.4	737.0	731.0
Jan	739.9	737.2	0	0
Mar	750.6	747.2	0	0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	131.00	127.80	131.40	129.80
Jan	129.50	125.40	0	0
Feb	123.70	119.80	0	0
Mar	117.90	113.80	119.00	116.25
May	104.10	102.20	105.70	104.00
Jul	93.90	93.80	97.70	93.60
Sep	89.90	91.00	93.00	90.00
Dec	88.20	89.30	91.50	87.50
Jan	88.00	89.10	0	0
Mar	87.40	88.60	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Jan	15.30	15.58	15.90	15.25
Feb	15.42	15.40	15.64	15.30
Mar	15.21	15.21	15.41	15.10
Apr	15.21	15.18	15.35	15.08
May	15.12	15.17	15.26	15.03
Jun	15.12	15.16	15.25	15.05
Jul	15.10	15.16	15.12	15.00
Aug	15.09	15.18	15.25	15.03
Sep	15.25	15.16	15.25	15.25
Oct	15.15	15.18	15.25	15.10

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Jan	49.25	48.73	49.40	48.40
Feb	47.55	47.22	47.70	46.75
Mar	44.90	44.57	45.05	44.40
Apr	42.80	42.60	43.00	42.30
May	41.80	41.40	41.85	41.30
Jun	41.20	40.72	41.30	40.72
Jul	41.39	40.72	41.30	40.72
Aug	41.75	41.42	42.00	41.75

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Mar	1808	1791	1809	1790
May	1837	1812	1837	1815
Jul	1861	1845	1865	1846
Sep	1889	1871	1892	1872
Dec	1930	1908	1930	1911
Mar	1963	1946	1960	1960
May	1988	1971	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Mar	129.01	129.48	129.50	128.95
May	131.08	131.38	131.50	131.08
Jul	132.80	133.73	133.30	132.80
Sep	135.18	135.68	0	0
Mar	138.25	138.30	0	0
May	140.00	139.60	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	8.44	8.46	0	0
Mar	8.73	8.84	8.86	8.71
May	8.76	8.81	8.81	8.73
Jul	8.77	8.80	8.79	8.72
Oct	8.81	8.85	8.85	8.76
Jan	8.91	8.96	0	0
Mar	9.06	9.07	9.08	9.01

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	67.46	67.01	68.09	66.70
May	68.25	67.82	69.00	67.60
Jul	68.70	68.30	69.60	67.95
Oct	65.15	64.95	64.90	64.68
Dec	64.25	64.05	64.90	63.70
Mar	65.40	65.25	0	0
May	65.65	65.70	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	166.10	166.80	167.50	165.65
Mar	167.05	167.15	168.10	166.00
May	167.50	167.00	168.00	165.80
Jul	168.30	167.05	168.30	166.00
Sep	167.00	166.50	0	0
Nov	162.50	162.50	162.50	162.50
Jan	158.50	158.50	0	0
Mar	158.50	158.50	0	0
May	158.50	158.50	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Dec 18	Dec 17	mnth ago	yr ago
1729.4	1700.2	1703.3	1645.7

DOW JONES (Base: December 31 1974 = 100)

Spot	132.67	132.69	128.36	115.84
Futures	135.04	135.44	131.52	114.88

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	601/6	592/4	602/0	594/0
Mar	613/4	603/0	614/0	604/4
May	621/2	610/2	621/4	612/4
Jul	625/4	614/6	626/0	617/4
Aug	621/0	611/4	621/0	615/0
Sep	604/0	594/0	604/0	598/0
Nov	599/2	590/6	599/4	592/0
Jan	606/0	598/0	606/0	600/0
Mar	614/0	606/0	614/0	614/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	20.27	19.82	20.36	20.00
Jan	20.39	19.79	20.42	19.94
Mar	20.77	20.19	20.79	20.36
May	21.09	20.48	21.10	20.68
Jul	21.32	20.70	21.33	20.90
Aug	21.36	20.72	21.38	20.98
Sep	21.25	20.75	21.40	21.20
Oct	21.30	20.70	21.30	21.30
Dec	21.40	20.92	21.40	21.19

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	207.5	203.6	208.0	203.0
Jan	198.7	194.3	199.0	194.5
Mar	190.2	187.2	190.5	186.3
May	183.0	181.6	183.0	180.7
Jul	179.9	179.0	180.0	178.5
Aug	178.5	178.2	180.0	178.0
Sep	177.0	177.5	178.5	177.0
Oct	176.3	176.5	176.7	176.0
Dec	176.0	176.2	177.7	176.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	179/4	180/0	179/4	178/4
Mar	185/6	186/0	186/0	185/0
May	191/6	191/6	192/0	191/0
Jul	196/4	196/4	196/4	195/4
Sep	197/2	197/4	199/4	196/6
Dec	197/0	195/6	197/4	195/2
Mar	203/6	201/6	204/0	203/6

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	310/6	312/0	313/0	310/2
Mar	320/2	321/0	322/4	318/2
May	313/0	313/4	314/4	311/0
Jul	300/6	300/6	301/0	299/0
Sep	304/0	303/0	304/0	303/2
Dec	312/2	312/0	314/0	312/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Feb	61.57	62.17	62.25	61.50
Apr	63.67	64.10	64.32	63.65
Jun	64.07	64.17	64.55	63.95
Aug	61.95	61.77	62.35	61.70
Oct	61.15	60.95	61.50	61.02

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Feb	42.15	42.00	42.60	42.05
Apr	39.00	38.90	39.37	38.95
Jun	41.95	42.05	42.20	41.92
Jul	42.72	42.80	42.90	42.52
Aug	41.90	41.50	42.00	41.65
Oct	36.80	36.60	36.90	36.60

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	50.50	51.12	51.67	50.30
Mar	50.57	51.25	51.60	50.40
May	52.17	52.62	52.80	52.05
Jul	52.65	52.87	53.20	52.52

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar ends near day's high

THE DOLLAR closed around its highest levels of the day in Europe, spurred by buying in early New York trading.

There were no fresh factors, only a mood of uncertainty, as the deal to cut the US budget deficit appeared to be nearing agreement by Congress.

The nervous mood of the market reflected expectations that the Group of Seven would issue a statement once the budget cuts were ratified.

Dealers suspected the US would be unwilling to take strong enough measures to support the dollar and little of any major importance to the market was expected from the G7 statement.

But at the same time markets are very thin at present, winding down ahead of the year-end holidays, and possibly producing marked swings in currency values on any surprising developments.

The dollar opened weak in Europe, but then recovered to finish little changed overall. It rose to DM1.6340 from DM1.6330 and to SFr1.3285 from SFr1.3260, but was unchanged at Y127.00 and fell to FFr5.5225 from FFr5.5250.

On Bank of England figures the dollar's exchange rate index rose to 93.4 from 93.3.

STERLING-Trading range against the dollar in 1987 is 1.8380 to 1.4710. November average 1.7770. Exchange rate index rose 0.1 to 75.6, compared with 72.5 six months ago.

Sterling had a slightly firmer tone, in spite of lower North Sea oil prices. The pound opened a little stronger against the D-Mark and then kept in line with the West German currency, to close near its lowest level of the day in terms of the dollar.

Sterling began at around $1.8340, and showed little reaction to the fall of Brent oil to below $15 a barrel. Oil prices then showed a partial recovery, but the pound lost ground late in the day, finishing only 5 points higher on the day at $1.8260-1.8270.

The pound rose to DM2.9850 from DM2.9825 and to SFr2.4275 from SFr2.4225, but was unchanged at FFr10.0875 and at Y232.00.

There was some nervousness ahead of this week's most important economic figure, tomorrow's UK trade figures for November.

D-MARK-Trading range against the dollar in 1987 is 1.9305 to 1.6310. November average 1.6809. Exchange rate index 151.1 against 146.5 six months ago.

The D-Mark weakened a little against the dollar after a very quiet day in Frankfurt. The dollar's improvement was the result of modest buying around the time of the New York opening. There was also favourable reaction, as far as the dollar was concerned to the comment by a West German Government spokesman that the G7 were planning a joint statement, renewing commitment to economic and currency accords.

The dollar rose to DM1.6320 from DM1.6315. Earlier in the day there was no intervention by the Bundesbank when the dollar was fixed at DM1.6293, compared with a record low of DM1.6218 on Friday.

JAPANESE YEN-Trading range against the dollar in 1987 is 159.45 to 126.20. November average 135.90. Exchange rate index 240.1 against 220.5 six months ago.

The yen was little changed against the dollar in Tokyo, as dealers waited for news about the passage through Congress of the US budget cutting package and any reaction from G7 countries. The dollar touched a low of Y126.50 in Tokyo, before closing at Y126.65, compared with Y126.45 on Friday.

Sentiment surrounding the dollar remained bearish, amid speculation there will be a test of Y125 in the near future, but possibly not before the Christmas holiday.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.21	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1793	+1.70	+0.92	±1.5344
Danish Krone	7.85212	7.95287	+1.28	+0.50	±1.6404
German D-Mark	2.05853	2.06544	+0.34	-0.44	±1.0981
French Franc	6.90403	6.98629	+1.19	-0.41	±1.3674
Dutch Guilder	2.31943	2.32421	+0.21	-0.57	±1.5012
Irish Punt	0.768411	0.776482	+1.05	-0.27	±1.6684
Italian Lira	1483.58	1517.91	+2.31	+1.97	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Dec 21	Latest	Previous Close
£ Spot	1.8270-1.8280	1.8350-1.8360
1 month	0.10-0.07pm	0.03-par
3 months	0.45-0.41pm	0.28-0.24pm
12 months	2.30-2.15pm	1.18-1.08pm

Forward premiums and discounts apply to the US dollar

POUND SPOT- FORWARD AGAINST THE POUND

December 21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8255-1.8360	1.8260-1.8270	0.08-0.05cpm	0.43	0.44-0.40pm	0.92
Canada	2.3870-2.4002	2.3890-2.3900	0.04dis-0.07pm	0.28	0.07dis-0.05pm	-0.10
Netherlands	3.35¼-3.36½	3.35¾-3.36¾	1½-1cpm	4.48	3¾-3¼pm	4.10
Belgium	62.30-62.61	62.30-62.40	14-7cpm	2.02	39-28pm	2.15
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 62.70-62.80. Six-month forward dollar 1.00-1.03cpm 12 month 2.20-2.10cpm

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

OTHER CURRENCIES

Dec 21	£	$
[illegible]	[illegible]	[illegible]
Kuwait	0.49950-0.50000	0.27305-0.27315
Luxembourg	62.30-62.40	34.10-34.20
Malaysia	4.5685-4.5800	2.4940-2.4970
Mexico	4080.90-4138.05	2230.00-2260.00
N. Zealand	2.8305-2.8355	1.5450-1.5475
Saudi Ar.	6.8595-6.8655	3.7495-3.7505
Singapore	3.6705-3.6780	2.0035-2.0055
S. Af (Cm)	3.5515-3.5670	1.9405-1.9445
S. Af (Fn)	5.6400-5.8190	3.0770-3.1745
Taiwan	51.95-52.20	28.50-28.60
U.A.E.	6.7185-6.7245	3.6725-3.6735

*Selling rate

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc [illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

Long term Eurodollars: two years [illegible]; three years [illegible]; four years [illegible]; five years [illegible] per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec 21	£	$	DM	Yen	F Fr.	S Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	0.991	1.811	2.959	230.0	10.	[illegible]
S Fr.	0.412	0.752	1.230	95.57	4.156	1
H Fl.	0.290	0.544	0.889	69.10	3.004	[illegible]
Lira	0.456	0.833	1.362	105.8	4.602	[illegible]
C $	0.418	0.764	1.249	97.09	4.222	[illegible]
B Fr.	1.604	2.929	4.787	372.1	16.18	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Uncertainty and low volume

TRADING VOLUME was low in the Liffe market yesterday but some traders stressed that this did not preclude the opportunity to take a position and make a profit.

"If you think a certain thing is going to happen, why wait until the new year when you can take a position now", suggested one dealer. With trading volume in gilts just over the 11,000 mark, a large order now would obviously have a significant effect on prices.

The March gilt price opened at 117-29 and touched a high of 118-12 before closing at 118-02, still up from 117-19 on Friday. Three-month sterling deposits started at 90.82 for the same delivery date and touched 90.86, where it closed, compared with 90.78 previously.

The biggest problem appeared to be which view to take. With short sterling, one dealer suggested that a March price of 90.86 was high enough to look for a downward movement. With oil prices showing signs of weakness and tomorrow's UK trade figures expected to be less than encouraging, the outlook appeared to be one of disappointment.

Other traders were less bearish but had little to offer as an alternative. Gilt prices were helped to some extent by higher US Treasury bonds while sterling recovered a little from its worst levels. However after an initial mark up, participation tended to fall away. There was very little reaction after the start of trading in the US and rumblings about a new G7 statement failed to create much of a stir.

Commenting on the low volume, one dealer stressed, "Its difficult to react in this market when you are at home with your feet up."

So for those left in the market, the message appeared to be clear: take a view now and take a gamble, or square up, sign off and come back next year.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
116	3.16	4.28	1.12	2.30
118	2.07	3.24	2.03	3.26
120	1.15	2.32	3.11	4.34
122	0.47	1.51	4.43	5.53
124	0.28	1.17	6.24	7.19
126	0.17	0.55	8.13	8.57
128	0.12	0.37	10.08	10.39
130	0.05	0.24	12.01	12.26

Estimated volume total, Calls 854 Puts 155
Previous day's open int: Calls 28402 Puts 15405

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
82	6.47	6.40	0.57	1.20
84	4.63	5.18	0.53	1.62
86	3.26	4.06	1.16	2.50
88	2.23	3.07	2.15	3.51
90	1.31	2.19	3.21	4.63
92	0.60	1.42	4.50	6.22
94	0.34	1.11	6.24	7.55
96	0.18	-	8.08	-

Estimated volume total, Calls 0 Puts 42
Previous day's open int: Calls 802 Puts 915

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Jan	Puts-Last Dec	Puts-Last Jan
15000	24.75	28.30	0.00	0.30
15250	22.25	-	0.00	-
15500	19.75	23.65	0.00	0.65
15750	17.25	-	0.00	-
16000	14.75	19.27	0.00	1.27
16250	12.25	-	0.00	-
16500	9.75	15.26	0.00	2.26
16750	7.26	-	0.00	-

Estimated volume total, Calls 3 Puts 0
Previous day's open int: Calls 152 Puts 321

LIFFE £/$ OPTIONS

£25,000 (cents per £1)

[illegible]

LONDON SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

PHILADELPHIA SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

LIFFE- EURODOLLAR OPTIONS

$1m points of 100%

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT

£50,000 32nds of 100%

[illegible]

US TREASURY BOND FUTURES

[illegible]

THREE MONTH STERLING

£500,000 points of 100%

[illegible]

FT-SE 100 INDEX

£25 per full index point

[illegible]

THREE MONTH EURODOLLAR

$1m points of 100%

[illegible]

US TREASURY BONDS 8%

$100,000 32nds of 100%

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%

$100,000 32nds of 100%

[illegible]

U.S. TREASURY BILLS (IMM)

$1m points of 100%

[illegible]

SWISS FRANC (IMM)

SFr 125,000 $ per SFr

[illegible]

JAPANESE YEN (IMM)

Y12.5m $ per Y100

[illegible]

DEUTSCHE MARK (IMM)

DM125,000 $ per DM

[illegible]

THREE-MONTH EURODOLLAR (IMM)

$1m points of 100%

[illegible]

STANDARD & POORS 500 INDEX

$500 times index

	Latest	High	Low	Prev.
Mar	249.60	250.00	249.00	248.45
Jun	-	251.50	250.65	250.00
Sep	253.30	253.70	-	252.50
Dec	-	254.50	-	254.80

CURRENCY FUTURES

[illegible]

MONEY MARKETS

Short rates steady

INTEREST RATES remained steady at the short end in money markets yesterday. While views about prospects in the new year tended to differ, dealers remained fairly convinced that the authorities were determined to keep the short end fairly liquid.

Overnight money started at 8½-8¼ p.c. and eased to 7 p.c. before coming back to 8 p.c. Three month interbank money rose to 9-8⅞ p.c. from 8¹⁵⁄₁₆-8¹³⁄₁₆ p.c., but one year money was quoted at 9½-9⅜ p.c. compared with 9⅜-9¼ p.c.

UK clearing bank base lending rate 8½ per cent from December 4

The Bank of England forecast a shortage of around £1,150m with factors affecting the market including the repayment of late assistance and bills maturing in official hands together with a take up of Treasury bills draining £776m and the unwinding of previous sale and repurchase agreements a further £1,037m. In addition Exchequer transactions drained a net £15m. These were partly offset by a fall in the note circulation of £380m and banks' balances brought forward £290m above target.

To help alleviate the shortage, the Bank offered an early round of assistance which resulted in outright purchases of £10m of eligible bank bills in band 1, £40m in band 3 and £50m in band 4, all at 8⅜ p.c. It also arranged sale and repurchase agreements on £336m of bills at 8⁷⁄₁₆ p.c., for resale to the market on January 11.

Further help of £331m was given in the morning through outright purchases of £241m of eligible bank bills, £156m in band 1, £20m in band 3, and £60m in band 4, all at 8⅜ p.c. It also arranged sale and repurchase agreements on £90m of bills at 8⁷⁄₁₆ p.c. unwinding on January 11.

A further revision took the forecast to a shortage of around £1,200m, before taking into account the earlier help and the Bank gave assistance in the afternoon of £439m through outright purchases of £200m of Treasury bills in band 1 at 8⅜ p.c. and in band 2 £65m of eligible bank bills at the same rate. In band 3 it bought £174m of eligible bank bills also at 8⅜ p.c.

Late assistance came to £20m, making a total of £1,226m.

In Frankfurt call money was a little higher at 3.25-3.35 p.c. compared with 3.10-3.15 p.c. on Friday as funds were drawn out of the market to meet corporate tax payments. This resulted in a sharp drop in commercial banks' reserve holdings with the Bundesbank and resulted in further funds being drawn down through the Lombard facility.

An additional DM7.8bn will be drained this week as a previous sale and repurchase agreement expires. Dealers are hopeful that the Bundesbank will take the opportunity to increase liquidity

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.21) 3 months US dollars — 6 months US Dollars

[illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

[illegible]

December 21	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

December 21	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

£ WORLD VALUE OF THE POUND

[illegible]

Abbreviations: [illegible]

COUNTRY	CURRENCY	VALUE OF £ STERLING
Afghanistan	Afghani	99.25
Albania	Lek	10.1490
Algeria	Dinar	8.56
Andorra	French Franc	10.0875
	Spanish Peseta	202.65
Angola	Kwanza	54.431
Antigua	E. Carribean$	4.95
Argentina	Austral	8.4020
Aruba	Florin	3.2995
Australia	Australian$	2.5670
Austria	Schilling	20.985
Azores	Portuguese Escudo	243.00
Bahamas	Bahama $	1.8265
Bahrain	Dinar	0.6905
Balearic Islands	Spanish Peseta	202.65
[illegible]	[illegible]	[illegible]
Gibraltar	Gibraltar £	1.00
Greece	Drachma	236.99
Greenland	Danish Krone	11.4875
Grenada	E. Caribbean $	4.95
Guadaloupe	Local Franc	10.0875
Guam	U.S. $	1.8265
Guatemala	Quetzal	4.7041
		1.8265
Guinea	Franc	623.22
Guinea-Bissau	Peso	1191.55
Guyana	Guyanese $	16.46
Haiti	Gourde	9.1650
Honduras	Lempira	3.6610
Hong Kong	H.K. $	14.2605
Hungary	Forint	86.0307
[illegible]	[illegible]	[illegible]
Paraguay	Guarani	985.76
		1610.84
Peru	Inti	60.40
		76.88
		82.37
		114.71
Philippines	Peso	37.10
Pitcairn Islands	£ Sterling	1.00
	N.Z. Dollar	2.8330
Poland	Zloty(o)	579.62
Portugal	Escudo	243.00
Puerto Rico	U.S. $	1.8265
Qatar	Riyal	6.6690
[illegible]	[illegible]	[illegible]

LONDON RECENT ISSUES

Series		Feb 88 Vol	Feb 88 Last	May 88 Vol	May 88 Last	Aug. 88 Vol	Aug. 88 Last	Stock
GOLD C	$ 480	50	21	–	–	–	–	$ 479.80
GOLD C	$ 500	1	10.50	53	22.50	–	–	$ 479.80
GOLD C	$ 520	5	6	12	16	–	–	$ 479.80
		Jan 88		Feb 88		Mch. 88		
EOE Index C	Fl 155	27	21	–	–	–	–	Fl. 174.57
EOE Index C	Fl 165	12	14	–	–	–	–	Fl. 174.57
EOE Index C	Fl 170	263	12	21	15	–	–	Fl. 174.57
EOE Index C	Fl. 175	298	8.30 B	22	13.10	8	15	Fl. 174.57
EOE Index C	Fl. 180	131	6.80	23	11	21	13.50 A	Fl. 174.57
EOE Index C	Fl. 185	86	4.70	49	9	–	–	Fl. 174.57
EOE Index C	Fl 190	33	3.20	–	–	–	–	Fl. 174.57
EOE Index P	Fl 155	37	1.50	60	2.50	–	–	Fl. 174.57
EOE Index P	Fl. 160	32	1.80	105	5	–	–	Fl. 174.57
EOE Index P	Fl 165	34	3.50	33	7.30	–	–	Fl. 174.57
EOE Index P	Fl. 170	122	5.70	16	9.50	–	–	Fl. 174.57
EOE Index P	Fl 175	55	7.50	–	–	–	–	Fl 174.57
EOE Index P	Fl. 180	56	10.50	33	14	–	–	Fl. 174.57
EOE Index P	Fl. 185	–	–	22	16.50	–	–	Fl. 174.57
EOE Index P	Fl 190	15	18.50 A	–	–	–	–	Fl. 174.57
EOE Index P	Fl. 200	11	26	–	–	–	–	Fl. 174.57
EOE Index P	Fl. 210	15	34.50	–	–	–	–	Fl. 174.57
EOE Index P	Fl. 235	13	59.50	–	–	–	–	Fl. 174.57
EOE Index P	Fl 255	21	81	–	–	–	–	Fl. 183.70
S-Fl C	Fl. 185	–	–	4	2.75	12	3.50	Fl. 183.70
S-Fl C	Fl. 195	–	–	–	–	10	1.20	Fl. 183.70
S-Fl P	Fl 180	1048	1.30 A	1	3.20 A	8	4	Fl. 183.70
S-Fl P	Fl. 185	69	3.50	43	5.20	557	6.30	
		Jan. 88		Apr 88		Jul. 88		
ABN C	Fl. 40	170	1.10	127	2.80	26	3.50	Fl. 39.30
ABN P	Fl 46	54	7.50 A	50	7.80	–	–	Fl. 39.30
AEGON C	Fl. 65	13	0.80	79	3.50	4	4	Fl. 59.80
AEGON P	Fl 65	73	6.50	–	–	–	–	Fl. 59.80
AHOLD P	Fl. 60	2	2	30	3.80	–	–	Fl 62.20
AKZO C	Fl. 100	320	1.90	135	6.70	16	8.50	Fl. 92.30
AKZO P	Fl. 100	155	8.70	6	12.70	–	–	Fl. 92.30
AMEV C	Fl. 50	–	–	16	1	–	–	Fl. 37.30
AMEV P	Fl. 50	96	12.50	–	–	–	–	Fl. 37.30
AMRO C	Fl. 90	50	0.10	–	–	–	–	Fl. 56.70
AMRO P	Fl. 60	13	4.10	1	5.80	–	–	Fl. 56.70
ELSEVIER C	Fl. 45	57	2.20	43	4.90	–	–	Fl. 45.20
ELSEVIER P	Fl. 40	2	1	17	2.50 A	5	9.50	Fl. 45.20
GIST-BROC C	Fl. 30	–	–	75	1.40	–	–	Fl. 23.80
GIST-BROC. P	Fl. 22.50	6	0.70	67	2.50	–	–	Fl. 23.80
HEINEKEN C	Fl. 140	22	2.50	87	6.90	10	8.50	Fl. 127.80
HOOGOVENS C	Fl. 35	–	–	67	1.50	–	–	Fl. 27.20
HOOGOVENS P	Fl. 25	116	1	52	3 B	–	–	Fl. 27.20
KLM C	Fl. 30	177	1.30	222	3.40	13	4.90	Fl. 29.10
KLM P	Fl. 27.50	23	0.80	86	2.30	32	3.20	Fl. 29.10
NEDLLOYD C	Fl 140	64	3.90	5	10	–	–	Fl. 125
NEDLLOYD P	Fl. 120	2	5	57	12.50	–	–	Fl. 125
NAT.NED. C	Fl. 50	108	2	18	4	2	5.90 B	Fl. 49.60
NAT.NED. P	Fl. 45	27	0.80	–	–	–	–	Fl. 49.60
PHILIPS C	Fl. 55	278	0.10	29	0.30	–	–	Fl. 27.60
PHILIPS P	Fl. 30	56	2.80 B	324	4.50	–	–	Fl. 27.60
ROYAL DUTCH C	Fl. 210	490	2	66	8	5	9.80	Fl. 199
ROYAL DUTCH P	Fl. 190	769	2.20	58	7	7	12	Fl. 199
ROBECO C	Fl. 90	12	0.90	30	3.50 B	–	–	Fl. 82.80
ROBECO P	Fl. 85	20	3.50	–	–	–	–	Fl. 82.80
UNILEVER C	Fl. 110	–	–	168	10	–	–	Fl. 107.70
UNILEVER P	Fl. 108	112	4.70	–	–	–	–	Fl. 107.70

TOTAL VOLUME IN CONTRACTS : :20,968

A=Ask B=Bid C=Call P=Put

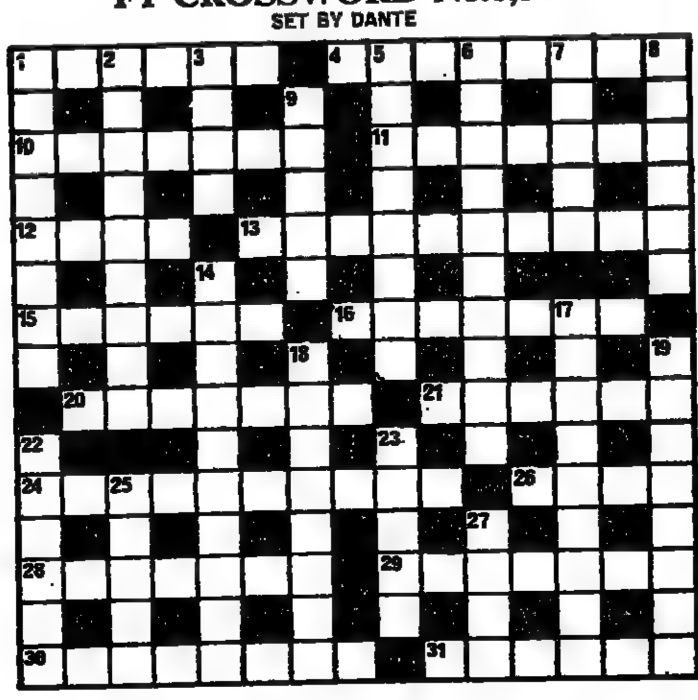
BASE LENDING RATES

	%
ABN Bank	$8\frac{1}{2}$
Adam & Company	$8\frac{1}{2}$
Allied Arab Bk	$8\frac{1}{2}$
Allied Dunbar & Co	$8\frac{1}{2}$
Allied Irish Bank	$8\frac{1}{2}$
American Exp.Bk	$8\frac{1}{2}$
Amro Bank	$8\frac{1}{2}$
Henry Ansbacher	$8\frac{1}{2}$
ANZ Banking Group	$8\frac{1}{2}$
Associates Cap Corp	10
Authority Bank	$8\frac{1}{2}$
B & C Merchant Bank	$8\frac{1}{2}$
Banco de Bilbao	$8\frac{1}{2}$
Bank Hapoalim	$8\frac{1}{2}$
Bank Leumi (UK)	$8\frac{1}{2}$
Bank Credit & Comm	$8\frac{1}{2}$
Bank of Cyprus	$8\frac{1}{2}$
Bank of Ireland	$8\frac{1}{2}$
Bank of India	$8\frac{1}{2}$
Bank of Scotland	$8\frac{1}{2}$
Banque Belge Ltd	$8\frac{1}{2}$
Barclays Bank	$8\frac{1}{2}$
Benchmark Tst Ltd	$8\frac{1}{2}$
Beneficial Trust Ltd	$9\frac{1}{2}$
Berliner Bank AG	$8\frac{1}{2}$
Brit Bk of Mid East	$8\frac{1}{2}$
● Brown Shipley	$8\frac{1}{2}$
Business Mtge Tst	9
CL Bank Nederland	$8\frac{1}{2}$
Central Capital	$8\frac{1}{2}$
● Charterhouse Bank	$8\frac{1}{2}$
Citibank NA	$8\frac{1}{2}$
City Merchants Bank	$8\frac{1}{2}$
Clydesdale Bank	$8\frac{1}{2}$
Comm.Bk.N.East	$8\frac{1}{2}$
Consolidated Cred	$8\frac{1}{2}$
Co-operative Bank	*$8\frac{1}{2}$
Cyprus Popular Bk	$8\frac{1}{2}$
Duncan Lawrie	$8\frac{1}{2}$
Equat'l Tst.C'p plc	$8\frac{1}{2}$
Exeter Trust Ltd	9
Financial & Gen. Sec	9
First Nat. Fin. Corp.	10
First Nat. Sec. Ltd.	10
● Robert Fleming & Co.	$8\frac{1}{2}$
Robert Fraser & Ptnrs.	$9\frac{1}{2}$
Girobank	$8\frac{1}{2}$
Grindlays Bank	$8\frac{1}{2}$
● Guinness Mahon	$8\frac{1}{2}$
HFC Trust & Savings	$8\frac{1}{2}$
● Hambros Bank	$8\frac{1}{2}$
Heritable & Gen Inv Bk.	$8\frac{1}{2}$
● Hill Samuel	§$8\frac{1}{2}$
C. Hoare & Co.	$8\frac{1}{2}$
Hongkong & Shangh	$8\frac{1}{2}$
Lloyds Bank	$8\frac{1}{2}$
Meghraj Bank Ltd	$8\frac{1}{2}$
Midland Bank	$8\frac{1}{2}$
● Morgan Grenfell	$8\frac{1}{2}$
Mount Bnkg Cpn Ltd	$8\frac{1}{2}$
Nat Bk. of Kuwait	$8\frac{1}{2}$
NatWestminster	$8\frac{1}{2}$
Northern Bank Ltd	$8\frac{1}{2}$
Norwich Gen. Trust	$8\frac{1}{2}$
PK Finans. Intl(UK)	9
Provincial Trust Ltd	$9\frac{1}{2}$
R. Raphael & Sons	$8\frac{1}{2}$
Roxburghe G'antee	$10\frac{1}{2}$
Royal Bk of Scotland	$8\frac{1}{2}$
Royal Trust Bank	$8\frac{1}{2}$
Smith & Williamson Secs.	$8\frac{1}{2}$
Standard Chartered	$8\frac{1}{2}$
TSB	$8\frac{1}{2}$
UDT Mortgage Exp	♦10.2
United Bk of Kuwait	$8\frac{1}{2}$
United Mizrahi Bank	$8\frac{1}{2}$
Unity Trust Bank Plc	$8\frac{1}{2}$
Western Trust	$8\frac{1}{2}$
Westpac Bank Corp.	$8\frac{1}{2}$
Whiteaway Laidlaw	9
Yorkshire Bank	$8\frac{1}{2}$

● Members of the Accepting Houses Committee. * 7 day deposits 3.50% Surewise 6.16%. Top Tier-£2,500+ at 3 months' notice 7.81%. At call when £10,000+ remains deposited. ♦ Mortgage base rate. § Demand deposit 3.49%. Mortgage 10% - 10.25%

FT CROSSWORD No.6,514

SET BY DANTE



ACROSS

1 Mug one may put one's teeth into? (6)
4 Vessel that crosses the bar? (8)
10 Unavailing suggestion for economy (7)
11 Complex King of Thebes (7)
12 Every variety of ache (4)
13 A magazine for ladies? (6-4)
15 One can't do more than this (6)
16 Put some notes in order (7)
20 An outcast, his meal is cooked for him (7)
21 Keen old bird in mountainous surroundings (6)
24 Something leaky about in camping equipment – ominous (10)
26 Call back (4)
28 Just the opposite of prosaic? (7)
29 Dash off for coal (7)
30 Train for employment (8)
31 Possibly push to conclusion (6)

DOWN

1 Showing common sense about a habit that arouses intense disgust (8)
2 Succeeds in arranging some cover (9)
3 Right out of line (4)
5 She mingles with the crowd picking out soups (8)
6 Agenda – make sure of your Financial Times (5,5)
7 No more old army slang from Poona (5)
8 This is not the full version, start again (6)
9 Charm, going topless at fashionable race meeting (5)
14 Not even a gymnast would use such bars (10)
17 One may bowl a maiden over, or get a wicket (4,5)
18 Type of set meals suitable for vegetarians (8)
19 Rude lines not altered (8)
22 How the sailor and parson may join together (6)
23 Prize money in the bag (5)
25 Verbal criticism of the show (5)
27 Question the cause of inflation? (4)

Solution to Puzzle No.6,513

C	A	R	L	I	N	E		T	H	I	S	T	L	E
A		E		N		X		R		N		R		V
P	A	G	A	N		T	R	A	N	S	P	I	R	E
I		R		E		R		P		T		N		R
T	H	E	B	R	O	A	D	S		I	N	G	L	E
A		T				T				T				S
L	O	T	U	S		I	M	P	R	U	D	E	N	T
		E		O		M		A		T		N		
I	N	D	U	L	G	E	N	T		E	N	D	U	E
N				F				R				E		M
D	O	D	G	E		M	A	I	N	B	R	A	C	E
U		R		R		I		A		R		V		R
C	H	O	R	I	S	T	E	R		A	G	O	R	A
E		S		N		R		C		I		U		L
D	I	S	P	O	S	E		H	U	N	D	R	E	D

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Scimitar Asset Management Ltd
8 Crosby Sq, London EC3A 6AQ 01-588 6903/4/5

Scimitar Global Gth Ac.	27.3	29.1	+0.2	–
Do. Income	27.2	29.0	+0.2	0.19
Scimitar European Acc.	20.3	21.7	–	–
Do. Income	20.3	21.7	–	0.11
Scimitar UK Eq Inc Acc.	33.2	35.0	+0.2	–
Do. Income	32.0	33.7	+0.2	5.66
UK Cap Gth Acc.	21.4	22.6	+0.1	0.75
Scimitar Pac. Basin Acc.	25.9	27.6	+0.1	–
Scimitar Mangd Europe*	130.8	136.3	+4.3	–

*Unauthorised

Scottish Equitable Fund Mgrs. Ltd(z)
28 St Andrews Sq, Edinburgh 031-556 1051

Intnl Income Units	118.5	126.1	–	3.04
Intnl Accum Units	181.3	192.9	–	3.04
UK General Acc.	34.9	37.3	–	3.11
UK General Inc.	33.6	35.9	–	3.11
American	25.5	27.3	–	0.64
European	33.8	36.2xd	–	0.94
Japan	51.5	55.1xd	–	–
Technology	32.5	34.8	–	1.42
Performance Trusts				
Far East Perf Tst.	14.8	15.9	–	0.64
High Inc Perf Tst Inc.	22.3	23.8xd	–	5.37
High Inc Perf Tst Acc.	22.6	24.2xd	–	5.37
Worldwide Tech Perf Tst.	25.4	27.2	–	–

Scottish Life Investments(z)
19 St Andrew Sq, Edinburgh 031-225 2211

Nelson (UK Equity)	199.6	213.5	+7.5	2.86
Columbus (America)	117.6	126.0	+2.6	1.42
Marco Polo (Pacific)	190.7	204.0	+3.5	0.39
Da Vinci (European)	204.1	218.3	-0.7	1.90
Drake	48.3	51.7	+0.6	3.03

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	184.9	196.8	–	3.32
UK Smlr. Cos. Equity	185.5	197.4	–	2.52
UK Special Situations	51.7	55.0	–	3.48
Income Plus	48.6	51.8	–	6.35
European	154.3	164.2	–	1.86
Far Eastern	[illegible]	[illegible]	[illegible]	[illegible]

Trades Union Unit Trust Managers
100 Wood Street, London EC2 01-686 4355

TUUT Dec 1 87	173.8	185.1	–	3.71

Triton Fd Mngrs. Ltd.
Royal Ldn. Hse. Colchester CO1 1RA 0206 764400

Triton General	127.2	136.8	–	1.79

Tyndall Unit Trust Managers Limited
25 Bucklersbury, London EC4N 248 3399

Convertible & Gold	58.0	61.5	+1.15	6.64
Accum Units	58.0	61.5	+1.15	6.64
Income	77.1	81.7	+2.2	5.30
Accum Units	77.1	81.7	+2.2	5.30
Smaller Co's	81.2	86.1	+1.9	1.70
Accum Units	81.2	86.1	+1.9	1.70
UK Growth	84.1	89.2	+1.9	1.52
Accum Units	84.1	89.2	+1.9	1.52

UK Unit Trust Managers Ltd
Worthing Road, Horsham, RH12 1SL 0403 40033

British Growth Fd.	50.7	54.0	+1.6	1.39
Technical Analysis Fd.	48.5	51.4	+1.2	1.95

Unit Trust Account & Mngmt. Ltd
20 Copthall Ave, London, EC2R 7PA 01-588 6064
Advisers: Henderson Crosthwaite Ltd

Friars Hse Cap Fd.	164.7	175.2xd	–	1.73
Friars Hse Inc Fd.	141.6	149.0xd	–	3.51

United Charities Unit Trusts (a)(c)(g)
Unicorn Hse, 252 Romford Rd, E7. 01-534 5544

United Charities	160.4	170.6	+7.2	4.49

Vanguard Trust Managers Ltd
65 Holborn Viaduct, London EC1A 2EU 01-236 3053
Dealing Line: 01-236 2468

Abingdon Eqty Assets	147.8	157.2	–	2.79
(Accum Units)	150.6	160.2	–	–
Far East & Gen.	48.2	51.3	–	0.34
(Accum Units)	48.2	51.3	–	–
Master Portfolio	63.199	64.819	–	2.96
(Accum Units)	[illegible]	[illegible]	[illegible]	[illegible]

INSURANCES

[illegible]

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds				
[illegible]	354.4	373.2	–	–
[illegible]	304.1	323.2	–	–
Pension Plan Funds				
Phoenix				
UK Equity Acc	156.6	164.8	+5.3	–
International Acc	115.8	121.8	+1.9	–
Property Acc	120.3	126.6	–	–
Fixed Interest Acc	147.2	154.9	+1.9	–
Money Acc	133.5	140.5	–	–
Bldg. Soc. Link Acc	131.4	138.3	+0.1	–
Special Mngd. Acc 0	138.2	145.4	+3.3	–
Phoenix Framlington				
Intl. Growth Acc	76.3	80.3	+0.3	–
Amer. & Gen. Acc	69.8	73.4	+0.5	–
Capital Tst. Acc	160.1	168.5	–0.3	–
Japan & Gen Acc	157.1	165.3	–0.3	–
American Turn Acc	68.5	72.1	+0.1	–
Recovery Tst. Acc	148.9	156.7	+0.3	–
Special Mngd Acc	127.5	134.2	–	–
Phoenix GT				
International Acc	112.1	118.0	+0.3	–
US & General Acc	82.8	87.1	–0.5	–
Amer. Spec. Sit. Acc	58.0	61.0	–0.1	–
Japan & General Acc	153.6	161.1	–0.5	–
Far East & Gen Acc	125.4	131.9	–0.7	–
UK Capital Acc	152.9	160.9	–1.3	–
European Acc	125.2	131.7	+1.3	–
Special Mngd. Acc	114.6	120.6	–0.4	–

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	254.5	267.9	–	–
Max Pen Inc & Cap Fd	323.1	340.2	–	–
Money Fund	110.4	116.3	–	–
Pens. Mngd Fd (Unit)	79.7	83.9	–	–
Pens. Mngd Fd (Acc)	88.5	93.2	–	–
Pens. FT30 Fd (Unit)	120.0	126.4	–	–
Pens. FT30 Fd (Acc)	133.2	140.3	–	–
Pens. Other Mgd Fd (Unit)	46.6	49.1	–	–
Pens. Other Mgd Fd (Acc)	51.8	54.6	–	–
Pens. Fxd Int Fd (Unit)	104.4	109.9	–	–
Pens. Fxd Int Fd (Acc)	115.9	122.0	–	–

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

Frobisher Fund Limited

GT Investment Mngmt Co SA

GT Management Plc

Gartmore Fund Managers Ltd. Agents

Assicurazioni GENERALI SpA

Gerinvest SA

Global Asset Management Corp.

John Govett Management International Ltd

Granville Management Ltd

Grindlays Capital-care Intl Mgt Co Ltd

Guinness Flight Fund Mgrs (Guernsey) Ltd

Hambro Pacific Fund Mgmt Ltd

Hambros Fd Mgrs (CI) Ltd

Hansard International Ltd

Health 2000 Limited

Henderson Admin. (Guernsey)

Henderson Management SA

Henderson Global Strategy Mngmt SA

Hill Samuel Fd. Mngrs. (Guernsey) Ltd

Hill Samuel Investment Services Intl (CAD)

IBJ Global Funds Limited

I.G. Trust Managers Ltd

The India Fund

Indosuez Asia Invest Services Ltd

ITEZ Beheer B.V.

International Bond Trust

International Cash Portfolios

International Specialty Fund

Investissements Atlantiques SA

Jardine Fleming & Co Ltd

Leopold Joseph & Sons (Guernsey)

Kleinwort Benson (Guernsey) Fd Mgrs Ltd

Kleinwort Benson Islamic Fd Mgmt Ltd

Korea Growth Trust

Korea International Trust

Lazard Offshore Funds

Le Fonds International Comgest

Liberty ALL-STAR World Equity Portfolio

Lloyds Bank (CI) U/T Mgrs.

Lloyds Intl. Money Market Fund Ltd

London Interstate Fund Managers Ltd

M & G (Guernsey) Ltd

M & G Island Fund

McDonnell & Co (Bermuda) Ltd

Manufacturers Hanover Geoktrust

Mediterranean Fund (SICAV)

Midland Bank Tst. Corp. (Jersey) Ltd

Morgan Grenfell (Jersey) Ltd

Murray International Ltd

Nomura Prudential Global Portfolio

The New Zealand Fund

Nikko Intl. Cap. Mngt. Co (Europe) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Norway Fund Management A/S

PFC Intercall Portfolio Fd Mgmt Ltd

PRS International

Pacific Basin Fund

Pacific Growth Fund

Parisbas Bond Fund SA

Perpetual UT Mgrs (Jersey) Ltd

Phoenix Holdings & Finance

Pinnacle Life International Ltd

Providence Capital International Ltd

Prudential Intl Financial Services Ltd

Putnam International Advisers Ltd

Rothschild Asset Management (CI)

Royal Life Intl. Ltd

Royal Trust Fund Mngt (CI) Ltd

Royal Trust Intl. Mgmt. Gp. Ltd

Save & Prosper International

Schroder Investment Management Ltd

Schroder Mngt Services (Jersey) Ltd

Scimitar Asia Limited

Singer & Friedlander Ldn. Agents

Stewart Ivory International Ltd

Sun Alliance International Life

TSB Trust Funds (CI)

Thornton Management Ltd

Touche Remnant & Co Ltd

Tyndall International (Guernsey) Ltd

Tyndall International (Isle of Man) Ltd

Tyndall International (Jersey) Ltd

Unico Invest Fd Mgt Co SA Lux

U.S. Treasury Securities Fund Ltd

Wardley Investment Services Intl

Warburg Investment Management Jersey Ltd

World Wide Growth Management

Money Market Trust Funds

Money Market Bank Accounts

Bank of Scotland

Barclays Prime Account

Brown Shipley & Co Ltd

Charterhouse Bank Limited

Citibank Savings

Co-operative Bank Cheque & Save

Dartington & Co Ltd

Henderson/Bank of Scotland

Humberclyde Finance Group

Lloyds Bank High Interest Cheque Account

Midland Bank plc

Phillips & Drew Trust Ltd

Provincial Trust

Save & Prosper/Robert Fleming

Tyndall & Co Ltd

J. Henry Schroder Wagg & Co Ltd

Western Trust & Savings Limited

Wimbledon & South West Finance Co Ltd

UNIT TRUST NOTES

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1987 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
99	97	Treas 7pc 1985-88‡‡	99	+1/32	7.70	8.47
102	99	Exch 10pc '88	100		10.44	8.75
101	98	Treas 9pc Cv '88	100	+	9.71	8.89
98	93	Transport 3pc '78-88	96	+	3.06	7.08
101	98	Treas 9pc '88	100	+	9.47	8.97
105	101	Treas 11pc 1989	102	+	11.25	9.14
102	97	Treas 9pc Cnv 1989	100	+	9.46	9.09
96	89	Treas 3pc 1989	95	+	3.15	6.61
104	99	Treas 10pc 1989	101	+	10.33	9.26
103	98	Exch 10pc 1989	101	+	9.90	9.25
105	100	Exch 11pc 1989	102	+	10.72	9.30
96	89	Treas 5pc 1986-89	95	+	5.25	7.85
108	99	Exch 10pc Cv '89	102	+	9.98	8.64
111	104	Treas 13pc 1990‡‡	106	+	12.15	9.26
106	100	Exch 11pc 1990‡‡	103	+	10.66	9.27
110	103	Exch 12pc 1990	106	+	11.74	9.25
92	84	Treas 3pc 1990	91	+	3.30	7.18
100	93	Treas 8pc 1987-90‡‡	98	+	8.35	8.82
51	50	Tr. 8pc Cv 1990 (50pd)	51	+	8.14	8.90
105	97	Treas 10pc Cv 1990	101	+	9.83	9.25
91	81	Exch 2pc 1990	88	+	2.82	6.89
110	102	Treas 11pc 1991	106	+	11.03	9.25
95	87	Funding 5pc '87-91‡‡	92	+	6.19	8.26
90	80	Treas 3pc 1991	87	+	3.43	7.24
110	98	Treas 10pc Cv '91‡‡	103	+	9.68	8.89
109	101	Exch 11pc 1991	105	+	10.43	9.26
99	91	Treas 8pc 1991	96	+	8.33	9.21
116	107	Treas 12pc 1992‡‡	111	+	11.44	9.32
106	97	Treas 10pc 1992	102	+	10.08	9.30
99	90	Treas 8pc 1992‡‡	95	+	8.36	9.20
108	99	Treas 10pc Cv 1992‡‡	104	+	10.08	9.30
86	79	Treas 3pc 1992	83	+	3.57	7.21
113	105	Exch 12pc '92	110	+	11.10	9.42
121	110	Exch 13pc 1992	116	+	11.73	9.46

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%.

BRITISH FUNDS – Contd

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

LONDON SHARE SERVICE

AMERICANS — Contd

1987 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
29	21	Rep NY Corp $5	21½xd	−⅛	$1.16	—	3.0
18¼	8⅞	Rockwell Intl $1	9½	+¼	66c	—	3.6
30	16¼	Sara Lee $1(1-3)	19½xd	+½	$1.00	—	2.7
11	8½	Sa[illegible] (B F) $1	9⅛	+⅛	20c	—	1.2
27⅝	21⅝	Southwestern Bell $1	18⅞	+¼	h$2.32	—	6.7
22	994p	Staley Continental	11	+⅛	80c	—	4.0
44	21⅝	Sun Co Inc $1	27⅛	+⅛	$3.00	—	6.0
42¼	22	TRW Inc $0.625	26¼xd	+⅝	h$1.60	—	3.3
37⅛	21½	Tenneco $5	22½xd	+½	$3.04	—	7.3
220	149	Do 10pcLn Stk 91-5	155xd		10%	—	14.7
29	15⅝	Texaco $6.25	20½xd	+1½	$3.00	—	7.8
74	36	Time Inc $1	44½xd	+1½	$1.00	—	1.2
20⅞	11	Tracor $0.33(1-3)	17½xd		40c	—	1.3
30	15	Transamerica $1	15½xd	+⅝	$1.84	—	6.6
14	14	Transworld Corp $5	805p	−5	20c	—	1.4
27⅛	12¼	TRINOVA Corp	18	+½	56c	—	1.7
24	12⅞	♦USX $1	16½	+⅛	$1.20	—	4.0
37½	16⅜	Utd Technologies	19xd	+⅝	$1.40	—	4.0
38⅝	25⅞	US West	28⅛	+⅛	$3.28	—	6.3
30	17⅛	Waste Management $1	19½xd	+¼	—	—	—
31	11⅝	Whirlpool $1 0	13½	+⅛	—	—	—
37	16½	♦Woolworth $3½	18½	+⅛	$1.33	—	3.9

CANADIANS

1987 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
691p	227p	AEM Gold Corp	292p	−16	—	—	—
26½p	10p	♦Abbot Energy Corp	16½p		—	—	—
18⅛	506p	♦Amer Barrick Res	12	+⅛	—	—	—
141p	6p	American Lightwave	7p	−½	—	—	—
122p	33c	♦Ameero	43½p		—	—	—
117p	39½p	Augmitto Explo	47p	−4	—	—	—
19⅛	10⅞	Bk Montreal	11⅛xd		$2.00	—	7.5
10	488p	Bk Nova Scot	522p	−4	72c	—	5.7
20⅝	15	BCE	15⅛	+⅛	$2.40	—	6.5
10⅛	511p	♦Bow Valley	980p	+17	40c	—	2.9
20	10⅛	♦Brascan	11⅛	+⅛	88c	—	3.2
[illegible]							

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS — Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES — Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING — Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) — Contd

[illegible]

INDUSTRIALS (Miscel.) — Contd

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES – Contd

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES – Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES – Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]								
82	41	Kemp (P.E.) 5p	41		–	–	–	–
235	56	Leading Leisure 5p	67	+1	0.9	3.1	1.8	19.4
95	60	Lynx Tech. 5p	65		–	–	–	7.5
130	95	M.L. Laboratories 1p	116	+2	–	–	–	–
180	67	Medirace 10p	95		–	–	–	–
98	38	♦Omega Gold IR 2p	43		–	–	–	–
48	40	Propeller 1p	43		W–	–	–	13.4
★82	17	Publishing Hldgs.5p	26xr	+1	–	–	–	15.6
128	80	Seacon Hldgs.	80		–	–	–	12.2
87	38	Theme Holdings	45		1.0	1.9	3.0	24.1
76	28	Tomorrows Leisure 20p	31		–	–	–	12.4
210	130	UPL Group 10p	132		L2.41	2.8	2.5	19.8
140	103	Whelt Group	123		R4.6	2.5	5.1	(8.8)
95	65	Video Tape Recording 5p	85		L2.3	2.3	1.7	12.2

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● Tap Stock
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- §§ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- ♦ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ¶ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986–87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	45	+2
Craig & Rose £1	625	+25
Finlay Pkg. 5p	81	
Holt (Jos) 25p	£22½	

For IoM Steam see Shipping

IRISH

Fund 11¼% 1988	£100¼	–⅛
Nat. 9¾% 84/89	£99⅝	
Fin. 13% 97/02	£113⅝	
Arnotts	385	
CPI Hldgs.	53	
Carroll Inds.	144	–1
Dublin Gas	40#	
Hall (R. & H.)	105	
Helton Hldgs.	40	
Irish Ropes	198¼	
Ualdare	300	

For Norish see Foods

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	42
Amstrad	28
BAT	57
BOC Grp.	46
BSR	13
BTR	33
Barclays	52
Beecham	52
Blue Circle	44
Boots	28
Bowaters	41
Brit Aerospace	42
Brit. Telecom	28
Burton Ord.	32
Cadburys	30
Charter Cons.	41
Comm Union	40
Courtaulds	42
FKI Babcock	14
FNFC	31
Gen Accident	105
GEC	22
Glaxo	155
Grand Met	50
GUS 'A'	150
Guardian	110
GKN	36
Hanson Tst.	19
Hawker Sidd.	55
ICI	145
Jaguar	42
Ladbroke	40
Legal & Gen.	33
Lex Service	35
Lloyds Bank	30
Lucas Inds.	62
Marks & Spencer	24
Midland Bk.	47
Morgan Grenfell	37
NEI	15
Nat West Bk.	67
P & O Dfd.	65
Plessey	20
Polly Peck	36
Racal Elect.	30
RHM	40
Rank Org Ord.	65
Reed Intnl.	50
STC	29
Sears	18
TI	35
TSB	16
Tesco	22
Thorn EMI	64
Trust Houses	28
T&N	22
Unilever	62
Vickers	22
Wellcome	47
Property	
Brit Land	32
Land Securities	55
MEPC	54
Peachey	47
Oils	
Brit Petroleum	35
Britoil	28
Burmah Oil	52
Charterhall	7
Premier	10
Shell	135
Tricentrol	15
Ultramar	24
Mines	
Cons Gold	125
Lonrho	29
RTZ	48

A selection of Options traded is given on the London Stock Exchange Report Page

LONDON STOCK EXCHANGE

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Dec 7	Dec 17	Dec 18	Jan 4
Dec 21	Jan 7	Jan 8	Jan 18
Jan 11	Jan 21	Jan 22	Feb 1

*New time dealings may take place from 9.00 am two business days earlier

Equities beak out of recent trading range and Gilts brush aside base rate worry

THE UK STOCK market launched itself into the festive season with gusto yesterday, as gains in New York and Far Eastern equity sectors buttressed the recovery of confidence in London. The first day of the Christmas trading account saw UK equities break convincingly out of the top end of the recent trading range in good turnover. Government bonds also moved higher, brushing aside both a fall in US bonds and some worries over upward pressure on domestic interest rates.

The FT-SE 100 Index quickly broached the 1730 level, regarded as a significant testing point, and extended its gain in the absence of selling pressure. At best the Index cleared 1755, and closed at 1750.2, a net gain of 33.2 points.

Helping equities was the continued firmness in sterling, which damped down last week's hints from the Gilt-edged market that UK base rates might soon rise. Government bonds were firmer throughout the session drawing strength from rumours from Germany that the G7 countries seek to renew their accord on world currencies.

Bonds topped off very slightly in late dealings after the authorities announced three new tranches of stock – £100m of 10 per cent **Treasury** '93, £100m 9½ pc **Conversion** '04, and £100m 2pc Index-linked **Treasury** '06. But net gains of ½ point remained on record, in a market supported by some good retail interest.

Once again, it was the oil shares which dominated the equity market's interest, as well as the active stocks lists. **Britoil** and **British Petroleum** were heavily traded as investors awaited today's meeting of the UK Takeover Panel, which could decide whether or not BP's £2.3bn bid for Britoil can procede. Adding to the tension, the Kuwait Investment Office disclosed that it has increased its stake in BP to 16.06 per cent, and the UK Treasury confirmed that it will terminate its 70p support offer for BP "new" shares on January 6.

Also underlining the revaluation of oil reserves sparked off by the Britoil situation, **British Gas** made a new offer, worth £458m, for 33 per cent of Bow Valley of Canada, which has substantial interests in the North Sea, and **London & Scottish Marine Oil (LASMO)**, increased its stake in Enterprise Oil to 25.35 per cent.

There was also a significant improvement in both prices and turnover levels in many second-line stocks, which have been under a cloud since Black Monday. Traders reported signs of a return to the marketplace of the unit trust funds, indicating some revival of private investor confidence

Mr Roger Jennings, of M & G unit trusts, said that his funds, having incurred net redemptions of £12m in November, see the redemption/new purchase ratio at break-even point this month.

The City appears sanguine ahead of this week's list of economic statistics, which range from the UK trade figures, due tomorrow, and the detailed money supply, on Thursday, to the US Federal deficit, expected overnight. The November trade figures may show an increased deficit on visible balance of as much as £950m, according to Wood Mackenzie.

Britoil shares jumped a further 6 to 427p, with the market ascribing the rise to strong buying by Atlantic Richfield (Arco), via Salomon Bros, the US securities house. A disclosure by Arco that it had lifted its Britoil stake to 14.7 per cent was, noted London dealers, made on Friday. "They must now be through the 15 per cent barrier", said one UK dealer, pointing out that 63m Britoil shares traded in London yesterday, and "Arco was the buyer".

With **BP** admitting to a 29.9 per cent stake in Britoil, but its bid for Britoil apparently inadmissable under existing UK takeover rules because of the UK Government's intention to invoke its Golden Share power against any bidder, attention is now focussed on today's meeting of the Takeover Panel.

Turnover in BP itself was very heavy, with 74m of the "new" traded at 71p, little changed since Friday, although traders believe that this price could drop to around 50p once the Treasury support offer closes early next month. The "old" shares jumped 13 to 251p, on turnover of 74m as the Kuwait Investment Office (KIO) disclosed its increased stake.

The recent investment activity by Arco, BP and the KIO has pumped about £1.8bn into the UK oil share sector, according to oil share analysts, obliging the major institutions to restructure their portfolio holdings. This heavy cash flow provided ample support for developments elsewhere in the sector.

British Gas moved up 7 to 132p, with 13m shares traded as investors responded to the purchase of the Bow Valley stake. **LASMO** at 269p, added 4 and **Enterprise Oil**, at 258p, gained 10 on LASMO's increased stake.

Redland, the major UK construction industry supplier, fell 17 to 418p following formal details of the widely anticipated deal whereby the company has agreed to acquire the roofing tiles business of Australain builders merchants Monier for A$298m cash and sell its 50.1 per cent stake in Monier to Equiticorp of Australia for A$320m.

Brokers Wood Mackenzie reckon that the deal is beneficial to Redland in the medium term, but now suggest a switch to RMC as Redland shares have outperformed RMC by some 10 per cent over the last month. Wood Mackenzie feel that RMC has better European and less US exposure than Redland.

The major clearing Banks were selectively firm. **NatWest**, a volatile market last week following details of the group's post-market crash situation and provisions made to cover losses, perked up, reflecting a squeeze on professional bear positions, to close 13 higher at 563p.

Life Insurances showed **Abbey Life** 9 to the good at 233p and **Pearl** 27 higher at 387p; market-makers Smith New Court were reportedly keen buyers of Pearl. Bid speculation continued to boosted Composites. **GRE** were outstanding and 18 higher at 888p in a market short of stock.

Building contractor and property developer **Hatfield Estates** made a successful debut in the Unlisted Securities Market, the shares closing at 110p compared with the placing price of 100p.

Allied-Lyons were excluded from the advance following a weekend press report that Australian entrepreneur Alan Bond may reduce his 5 per cent when market conditions allow. Market-makers treated the suggestion with scepticism but sales of the shares found prospective buyers on the retreat and the close was 7 down at 345p. Morgan Grenfell Securities regard the Bond stake "as an investment aimed at reinforcing trading relationships, not as a prelude to a bid". The securities house reckons the shares are cheap but should not be chased too high.

Other major brewing concerns registered small changes either way as sentiment in the sector was dampened but cidermaker **H.P.Bulmer** spurted 12½ to 154p xd, replying to favourable newspaper mention. Redland apart, leading Building issues were quite perky although dealers commented that trade remained in relatively low key. **Taylor Woodrow** continued to rise in a market short of stock and closed 10 higher at 359p. **Wiggins** put on 12 to 144p ahead of tomorrow's half-year figures.

ICI attracted support on Wall Street influences and closed ¼ higher at £11¼. **Laporte** were also in demand at 392p, up 18 and **Allied Colloids**, the subject of a broker's recommendation last week, firmed 6 afresh to 123p. **Sutcliffe Speakman** gained 5 to 116p in reply to excellent interim figures.

Television reports of a possible late pick-up in Christmas trading was a relief for the Stores sector and most stocks benefited. **Dixons** were additionally influenced by takeover speculation and gained 12 to 209p, while **Woolworth** improved 11 to 255p and **Coats Viyella** 15 to 295p. Second-line issues were equally good with **Bentalls** up 11 at 154p and **Gabicci** 12 higher at 135p, both on newspaper mention. Other good features included **Knobs & Knockers**, 11 dearer at 86p, and **Acsis Jewellery**, 10 firmer at 80p. **Body Shop** jumped 40 to 705p and **Alexon** 15½ to 330p xd, while **A.Goldberg** added 11 further at 171p.

Week-end Press mention helped enliven interest in **Thorn EMI** which gained 17 to 554p. **British Telecom** were actively traded, rising 6 to 226p in a volume of some 6.8m shares. **Cable and Wireless** were also noteworthy for a gain of 14 at 339p. Outside the Electrical leaders, bid speculation pushed **Oxford Instruments** ahead strongly to close 20 higher at 252p while bid hopes were also responsible for a jump of 25 to 107p in **Zygal Dynamics**. Demand in a limited market left **AB Electronic** 27 dearer at 345p.

Interest in the Engineering sector broadened considerably. Among the leaders GKN, helped by week-end Press mention, continued to make headway and closed 5 to the good at 315p. **Vickers** came to life with a rise of 10 at 156p while **Hawker** improved afresh to close 7 better at 468p. Elsewhere, **Delta** were in demand at 266½p, up 11½, amid a revival of takeover talk. **600 Group** were also wanted and put on 9 to 103p. Buying in a market none too well supplied with stock left **Carclo** 18 to the good at 170p. Favourable Press mention prompted a gain of 5 to 120p in **ML Holdings**. Other bright spots included **Camford**, 12 higher at 133p, and **Glynwed** a similar amount better at 451p.

The Food sector provided several bright features. **Tate and Lyle** were outstanding and closed 30 higher at 730p, while **Dalgety**, boosted by Press comment, put on 12 at 306p. **Rowntree** revived with a gain of 15 at 443p and **Northern Foods** firmed 5 to 251p. **Ranks Hovis McDougall**, in which Goodman Fielder of Australia holds a stake, put on 9 to 313p. **Booker** rose 20 to 388p in a restricted market and **Hillsdown** gained 11 to 280p following a broker's recommendation. Retailers traded quietly, but old takeover favourite **Bejam** firmed 11 to 185p helped by option business.

Grand Metropolitan were a firm market on Wall Street influences and closed 17 higher at 442p; rumours were also circulating that Seagrams, the bid Canadian drinks group, may make a full bid for Martell, the French cognac company in which Grand Met recently increased its stake to nearly 20 per cent. Last week, Seagrams bought the Martell family's 40 per cent holding.

International stocks enjoyed a firm trading session, but some of the day's sharp gains were accentuated by stock shortages: **BOC** featured a rise of 17 at 405p, although turnover amounted to only just under 1m shares. **Pilkington**, however, were one of the most actively traded stocks, advancing 6½ to 220p in a volume of some 4m shares with the aid of favourable week-end Press comment. **Boots** were also a lively market and settled 10 higher at 252p.

Elsewhere, **Granada** moved up 12 to 299p in the wake of the company's announcement of the increase in its Multiple Option Facility from £125m to £300m following substantial oversubscription by the participating banks. US favouritie **Reuters B** jumped 22 to 484p. Other outstanding movements included **Avon Rubber**, 27 to the good at 635p, **Avis Europe**, 15 higher at 296p, and **Christies International** which continued to make headway at 397p, up 9p. **British Airways**, awaiting fresh moves in the British Caledonian bid situation, put on 4 more to 164p in a volume of some 1.8m shares: it was subsequently announced that British Caledonian is recommending a new offer from British Airways worth approximately £250m. News of the agreement to acquire the Budd Chemical Company, a New Jersey based manufacturer of urea moulding powders, enlivened interests in **T and N** which firmed 8 to 188p. **Economic Forestry** moved up 7 to 95p in reponse to the preliminary figures while acquisition news left **Hodgson** a few pence dearer at 208p.

Pearson closed 5 higher at 685p in the wake of the announcement that the Financial Times, a subsidiary of the former, has signed a letter of intent to acquire 25 per of the Financial Post, a leading Canadian publisher of business and financial news. The Financial Post is to launch Canada's first financial newspaper in February 1988.

Currency influences for once failed to impede upward progress in **Jaguar**, which closed 15 higher at 319p, while **Lucas Industries** were bought on unconfirmed reports of a large brake order and ended 16 up at 555p. **Lex Service** continued the recent recovery, gaining 9 more to 290p, and **T.Cowie** rose 15 to 100p with the help on press comment.

Newspaper issues regained some of the glory last seen before the October crash in values. **United** were the frontrunner and settled 22 dearer at 445p while **Associated** advanced 11 to 442; the latter's preliminary statement is due on January 7. **Maxwell Communications** moved up 4 to 234p while **William Collins** "A" jumped 21 to 450p.

Bunzl improved after revealing three acquisitions, the largest being Robson's Distribution Services from United Glass, at a cost of £16.4m cash. **DRG** bounded 13 more to 419p but there was little else worthy of note in the Paper/Printing sector.

Advertising Agencies and related stocks progressed, some with the aid of comment. A suggestion that **Broad Street**, marginally easier at 65p, could be ready to bid lifted **Davidson Pearce** 7 to 100p, while **Aspen Communications** advanced 15 to 393p on news that Scottish Amicable held a 7.7 per cent stake. **Lowe Howard-Spinks** put on 23 to 333p and **Lopex** 9 to 165p. Advice to reduce holdings in newcomer **Waverley Cameron** were ignored and the shares rose 10 to 473p.

Leading Properties made useful headway despite a relatively thin trade. **Land Securities** advanced 17 to 482p and **MEPC** gained 15 to 461p. **Hammerson A** continued to attract support on Hutchinson Whampoa stake-building rumours and rose 18 more to 548p, while **Peachey**, also mentioned as a likely bid candidate, put on 7 to 378p. **British Land**, additionally boosted by a broker's recommendation, put on 10½ to 270p xd. **Peel Holdings** responded to good interim figures with a rise of 10 at 263p, while news of the respective proposed share buy-ins boosted **Helical Bar** 19 to 175p and **Southend Stadium** 12 to 164p; the last-named also proposes to change its name to Southend Property Holdings.

Courtaulds followed the trend of other Alpha stocks and settled 13 higher at 361p while **Dawson International** responded to the buy-in proposal with a rise of 17 to 211p; in keeping with the current vogue, the latter group intends to ask shareholders for permission to purchase in the market 15m of its own shares, representing some 9.8 per cent of the company's equity. Elsewhere, **Sirdar** attracted buyers and rose 9 to 112p.

Another forward surge in **M & G**, up 24 at 260p, drove other fund management groups higher. **Henderson Administration** soared 87 to 700p, **Mercury Asset Management** jumped 25 to 290p

Traditional Options

- First dealings Dec 14
- Last dealings Dec 31
- Last declarations Mar 17
- For Settlement Mar 28

For rate indications see end of London Share Service

Stocks to attract money for the call included **Barratt Developments, Bejam, Elswick, Bryant Holdings, Bouganville, Standard Chartered, Norex, Brunswick, Centrway Holdings, H.P. Bulmer, Astra Holdings and Berkeley and Hay Hill.** No put or double options were reported.

Traded option activity picked up with some 26,635 contracts arranged comprising 19,357 calls and 7,278 puts. Several stocks achieved call option trades in excess of 1,000 contracts, including **Britoil**, 1,266, **Hanson**, 1,333 and **British Gas**, 1,405. **BP** contributed 1,268 calls and **British Airways** 1,127. The **FTSE** contract attracted 1,238 calls and 1,052 puts.

FINANCIAL TIMES STOCK INDICES

	Dec. 21	Dec. 18	Dec. 17	Dec. 16	Dec. 15	Year Ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs	88.21	87.72	87.86	87.66	87.98	82.89	93.32 (8/5)	83.73 (19/10)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	94.69	94.85	94.84	94.90	95.05	89.67	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1405.1	1377.8	1366.6	1348.9	1332.0	1286.1	1926.2 (16/7)	1232.0 (9/11)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines*	305.6	313.8	319.0	320.4	327.5	309.2	497.5 (4/8)	262.6 (6/11)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div.Yield	4.46	4.55	4.60	4.64	4.70	4.45				
Earnings Yld. %(full)	11.17	11.38	11.53	11.59	11.74	10.57				
P/E Ratio (net)(*)	10.98	10.77	10.63	10.57	10.43	11.61				
SEAQ Bargains (5pm)	27,597	28,077	27,907	24,387	21,258	30,012				
Equity Turnover (£m)	-	1498.46	1386.27	1101.78	1130.65	1234.02				
Equity Bargains	-	31,571	30,711	25,849	24,017	46,774				
Shares Traded (ml)	-	633.4	588.2	566.3	555.2	539.1				

S.E ACTIVITY

Indices	Dec.18	Dec.17
Gilt Edged Bargains	102.6	125.3
Equity Bargains	204.6	199.0
Equity Value	3028.8	2802.0
5-Day average		
Gilt Edged Bargains	111.8	110.5
Equity Bargains	175.6	168.3
Equity Value	2446.4	2373.8

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1389.0	1399.9	1400.1	1405.9	1407.9	1406.9	1406.8	1403.8

Day's High 1408.0 Day's low 1388.8

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.86. *Corr. Div. 311.8.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-0898 123001

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (5)

BRITISH FUNDS (3) Treas. 7¾pc. 1985-88, Treas. 8pc. Cv. 1990 (£50 pd), Treas. 2pc. IL 1988.

NEW LOWS (65)

AMERICANS (1) CANADIANS (3) BANKS (1) BUILDINGS (2) ELECTRICALS (7) ENGINEERING (1) FOODS (1) INDUSTRIALS (11) INSURANCE (1) PAPERS (1) PROPERTY (1) TRUSTS (3) OILS (3) MINES (8)

FT – ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Mon Dec 21 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (27%))	Est. P/E Ratio (Net)	xd adj. 1987 to date	Fri Dec 18 Index No.	Thu Dec 17 Index No.	Wed Dec 16 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (214)	720.88	+1.5	9.97	4.00	12.58	20.99	709.94	700.49	689.56	682.78
2	Building Materials (30)	935.98	+1.1	10.53	4.02	11.81	27.46	925.66	904.29	879.21	849.95
3	Contracting, Construction (33)	1349.39	+1.4	9.80	3.71	13.55	34.99	1330.32	1319.94	1300.91	1171.76
4	Electricals (14)	2036.55	+2.9	8.98	4.56	14.47	65.15	1980.10	1966.01	1949.00	1734.06
5	Electronics (33)	1518.48	+1.8	10.51	3.42	12.42	38.66	1491.44	1482.31	1481.60	1498.83
6	Mechanical Engineering (60)	366.03	+1.5	10.20	4.50	12.34	12.47	360.74	357.22	351.63	384.47
8	Metals and Metal Forming (7)	438.29	+1.2	9.64	3.83	12.52	12.87	433.17	431.40	423.78	349.08
9	Motors (14)	268.74	+3.2	11.19	4.33	10.40	7.46	260.48	255.66	245.67	263.25
10	Other Industrial Materials (23)	1248.64	+1.0	8.47	4.16	14.05	39.80	1236.57	1214.71	1194.34	1172.70
21	CONSUMER GROUP (182)	1030.94	+1.5	8.51	3.53	14.97	25.82	1015.80	1015.85	997.86	937.18
22	Brewers and Distillers (21)	991.24	+0.8	10.89	3.97	11.63	25.39	983.82	983.07	952.16	921.29
25	Food Manufacturing (23)	835.27	+0.8	9.23	3.86	13.90	23.39	828.39	827.51	814.22	732.79
26	Food Retailing (17)	2083.34	+0.5	7.67	2.92	17.32	47.36	2073.09	2108.85	2080.77	1810.20
27	Health and Household Products (10)	1764.34	+1.4	6.65	2.55	17.93	33.67	1739.92	1723.75	1716.57	1626.49
29	Leisure (29)	1129.92	+2.0	7.72	4.13	16.17	31.98	1107.26	1104.18	1079.57	963.83
31	Packaging & Paper (16)	499.64	+0.9	8.44	3.62	15.60	12.71	495.10	488.70	483.35	484.29
32	Publishing & Printing (15)	3331.57	+1.7	6.58	4.39	19.21	99.38	3275.30	3287.72	3217.14	2742.87
34	Stores (35)	842.47	+2.4	8.95	3.59	15.00	21.77	822.91	824.58	824.84	817.23
35	Textiles (16)	622.95	+4.4	10.56	3.78	10.91	17.67	596.53	591.44	588.25	548.46
40	OTHER GROUPS (87)	852.63	+1.8	10.82	4.34	11.49	27.29	837.51	825.18	814.37	806.96
41	Agencies (17)	1047.01	+3.2	6.68	2.29	19.12	17.38	1014.11	997.59	978.00	0.0
42	Chemicals (21)	1076.32	+2.8	9.51	4.35	12.91	33.69	1047.38	1027.58	1022.11	1006.35
43	Conglomerates (13)	1127.56	+0.8	10.55	4.63	10.89	39.30	1119.13	1101.21	1089.84	0.0
45	Shipping and Transport (11)	1760.32	+1.2	9.65	4.69	13.58	57.89	1739.17	1710.70	1698.64	1596.45
47	Telephone Networks (2)	890.62	+1.6	12.09	4.75	11.01	31.99	876.87	864.31	847.06	839.27
48	Miscellaneous (23)	1165.80	+1.9	13.18	4.09	9.03	35.16	1144.21	1135.70	1120.29	1097.82
49	INDUSTRIAL GROUP (483)	911.19	+1.6	9.51	3.87	13.24	25.45	896.94	890.42	876.17	846.80
51	Oil & Gas (17)	1682.68	+4.3	9.87	5.85	12.49	66.21	1613.89	1604.91	1630.90	1491.38
59	500 SHARE INDEX (500)	976.58	+2.0	9.56	4.16	13.13	28.96	957.68	950.96	948.14	901.44
61	FINANCIAL GROUP (121)	636.09	+2.2	–	4.92	–	22.43	622.25	616.14	608.74	687.82
62	Banks (8)	625.13	+1.9	21.33	6.26	6.20	26.94	613.48	603.49	602.96	674.31
65	Insurance (Life) (8)	916.69	+2.1	–	5.02	–	32.56	898.18	899.82	898.58	859.53
66	Insurance (Composite) (7)	523.89	+1.9	–	5.26	–	20.16	514.12	515.83	504.57	454.15
67	Insurance (Brokers) (8)	920.78	+1.6	12.05	6.24	10.62	40.26	906.15	897.42	889.58	1141.19
68	Merchant Banks (11)	340.20	+2.3	–	4.19	–	10.69	332.71	323.52	312.29	344.22
69	Property (49)	995.80	+3.2	5.26	3.08	24.28	22.75	965.22	958.34	936.40	798.62
70	Other Financial (30)	377.06	+2.1	9.64	4.20	13.12	12.01	369.47	367.56	357.51	340.11
71	Investment Trusts (87)	804.77	+2.5	–	3.15	–	18.67	785.41	786.50	777.81	867.69
81	Mining Finance (2)	429.94	+0.9	10.57	3.97	10.65	12.77	426.25	427.26	435.97	335.40
91	Overseas Traders (10)	948.33	+1.7	9.61	5.31	12.21	37.00	924.57	928.78	925.11	737.35
99	ALL-SHARE INDEX (720)	884.50	+2.0	–	4.25	–	26.87	867.07	861.05	851.61	823.18

	Index No.	Day's Change	Day's High	Day's Low	Dec 18	Dec 17	Dec 16	Dec 15	Dec 14	Year ago
FT-SE 100 SHARE INDEX ♦	1750.2	+33.2	1755.4	1730.8	1717.0	1706.2	1689.8	1670.0	1652.4	1652.2

FIXED INTEREST

	PRICE INDICES	Mon Dec 21	Day's change %	Fri Dec 18	xd adj. today	xd adj. 1987 to date
	British Government					
1	5 years	123.05	+0.19	122.88	0.06	11.06
2	5-15 years	137.84	+0.44	137.79	0.56	14.26
3	Over 15 years	145.59	+0.68	144.78	0.18	14.19
4	Irredeemables	160.38	+0.25	159.98	–	13.59
5	All stocks	135.19	+0.40	134.97	0.32	13.25
	Index-Linked					
6	5 years●	122.94	+0.09	123.57	0.74	2.92
7	Over 5 years●	115.52	+0.05	115.74	0.27	3.43
8	All stocks●	115.96	+0.05	116.21	0.31	3.37
9	Debentures & Loans	115.87	+0.04	115.87	0.05	10.69
10	Preference	84.84	+0.05	84.87	0.08	6.24

	AVERAGE GROSS REDEMPTION YIELDS		Mon Dec 21	Fri Dec 18	Year ago (approx.)
	British Government				
1	Low	5 years	8.86	8.93	9.87
2	Coupons	15 years	9.50	9.58	10.20
3		25 years	9.35	9.42	10.28
4	Medium	5 years	9.49	9.56	11.01
5	Coupons	15 years	9.71	9.78	10.61
6		25 years	9.60	9.67	10.32
7	High	5 years	9.57	9.64	11.07
8	Coupons	15 years	9.86	9.94	10.79
9		25 years	9.62	9.68	10.36
10	Irredeemables†		9.27	9.32	10.00
	Index-Linked				
11	Inflation rate 5%	5yrs.●	3.07	3.10	3.84
12	Inflation rate 5%	Over 5 yrs.●	3.96	3.96	3.82
13	Inflation rate 10%	5yrs.●	3.47	3.49	2.27
14	Inflation rate 10%	Over 5 yrs.●	4.03	4.03	3.65
15	Debs &	5 years	10.95	10.90	11.64
16	Loans	15 years	11.06	11.03	11.46
17		25 years	11.13	11.11	11.46
18	Preference†		10.69	10.68	11.87

♦Opening index 1731.4; 10 am 1743.6; 11 am 1744.0; Noon 1751.2; 1 pm 1754.9; 2 pm 1753.2; 3 pm 1753.7; 3.30 pm 1751.7; 4 pm 1750.3

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

LONDON TRADED OPTIONS

[illegible]

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA-MFI	520	Enterprise Oil	1,200	Prudential	373
Allied-Lyons	1,400	[illegible]	1,200	Racal	1,700
Amstrad	582	Gen. Accident	207	Rank Org.	422
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Burmah Oil	1,100	Lucas	648	T & N	390
Burton	4,100	MEPC	643	TSB	2,000
Cable & Wire	4,300	Marks & Spencer	4,000	Tarmac	528
Cadbury Schwps	22,400	Maxwell Comms.	906	Tesco	2,700
Coats Viyella	1,900	Metal Box	2,200	Thorn EMI	1,700
Comm. Union	3,500	Midland Bank	1,000	Trafalgar House	617
Cons. Gold	275	NatWest Bank	924	T'house Forte	2,100
Cookson	146	Next	1,000	Ultramar	1,350
Courtaulds	1,100	Northern Foods	1,900	Unilever	1,700
Dalgety	673	Pearson	777	United Biscuits	392
Dee Corpn	3,800	Pearl Assurance	1,400	Wellcome	1,500
Dixons Group	2,800	P & O	832	Whitbread A	820
English China Clays	663	Pilkington Bros	4,200	Woolworth	1,150
		Plessey	2,200		

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	113	0	3
Corporations, Dominion and Foreign Bonds	20	3	29
Industrials	826	176	565
Financial and Properties	379	52	207
Oils	42	24	45
Plantations	4	1	9
Mines	38	64	97
Others	124	42	81
Totals	1,546	362	1,036

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1987 High	1987 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
‡55	F.P.	-	61	55	♦Allied Restaurants 5p	60	-1	L1.1	4.6	2.5	11.8
330	120	-	92	70½	British Petroleum	70½		N12.5	1.5	6.1	13.9
-	F.P.	-	4	2	EFM Dragon Tst. Wrnts.	4	+1	-	-	-	-
‡	F.P.	-	268	231	English & Caledonian Inv.	231		-	-	-	-
330	F.P.	-	284	243	Eurotunnel Units	243		-	-	-	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · GERMANY (continued) · NETHERLANDS (continued) · NORWAY · ITALY · SPAIN · SWEDEN · SWEDEN (continued) · SWITZERLAND · SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA (continued) · HONG KONG · SINGAPORE · AUSTRALIA

[illegible]

CANADA

TORONTO
Closing prices December 21

[illegible]

1—No voting rights or restricted voting rights.

MONTREAL
Closing prices December 21

[illegible]

Total Sales 8,227,880 shares

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 37

[illegible]

CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES

Aspen Comms.	383	+	15
BOC Group	405	+	17
Boots	252	+	10
Cable & Wireless	339	+	14
Cowie (T.)	100	+	15
DRG	419	+	13
Dawson Intl.	211	+	17
Goldberg (A.)	171	+	11
Grand Met	442	+	17
Hillsdown Hldgs	280	+	11
Knobs & Knockers	86	+	11
Land Securities	482	+	17
Lucas Inds.	585	+	16
M & G Group	260	+	24
MEPC	461	+	16
Mercury Asset Mngmt.	290	+	25
Nat West	563	+	13
Oxford Instruments	252	+	20
Southend Stadium	164	+	12
THORN EMI	554xd	+	17
Wiggins Group	144	+	12
Woolworth Hldgs.	255	+	11

FALLS

Redland	418	−	17

TOKYO – Most Active Stocks
Monday December 21 1987

	Stocks Traded	Closing Prices	Change on day
Ishikawajima-Harima Heavy Ind	47.79m	685	-1
Nisshin Steel	38.79m	641	+6
Kawasaki Steel	13.93m	353	-
Hitachi	13.74m	1,240	+40
Sumitomo Construction	12.12m	712	+2
Nippon Steel	11.67m	407	-2
Sanyo-Kokusaku	10.44m	734	+14
Tokyu Construction	8.92m	937	-3
Sumitomo Chem	8.37m	854	+9
Nachi-Fujikoshi	8.04m	590	+29

Indices

NEW YORK — DOW JONES

	Dec. 18	Dec. 17	Dec. 16	Dec. 15	1987 High	1987 Low	Since compilation High	Since compilation Low
♦Industrials	1975.30	1924.40	1974.47	1961.48	2722.42 (25/8)	1738.42 (19/10)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	86.22	86.23	86.11	85.98	95.51 (9/2)	81.26 (19/10)	–	–
Transport	767.29	748.86	764.71	731.0	1101.16 (14/8)	661.00 (4/12)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	178.05	174.67	178.46	177.81	227.83 (22/1)	160.98 (19/10)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 1982.92 (1987.23) Low 1924.73 (1917.44)

STANDARD AND POOR'S	Dec. 18	Dec. 17	Dec. 16	Dec. 15	1987 High	1987 Low	Since compilation High	Since compilation Low
Composite ‡	249.16	242.98	248.11	242.80	336.77 (25/8)	223.92 (4/12)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	287.56	280.38	286.52	280.20	393.17 (25/8)	255.43 (4/12)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	21.78	20.92	21.12	20.70	32.43 (25/8)	20.39 (7/12)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	139.15	136.02	138.34	135.61	187.99 (25/8)	125.91 (4/12)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. value	256.87	251.18	252.10	248.82	365.01 (13/8)	231.90 (4/12)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	326.91	319.15	319.25	312.68	455.28 (26/8)	291.90 (28/10)	455.28 (26/8/87)	54.87 (31/10/72)

	Dec. 18	Dec. 11	Dec. 4	year ago (approx.)
Dow Industrial Div. Yield	3.50	3.69	3.88	3.50

	Dec. 16	Dec. 9	Dec. 2	year ago (approx.)
S & P Industrial div. yield	15.88	3.24	3.86	2.94
S & P P/E ratio	3.13	15.25	14.73	17.99

TRADING ACTIVITY † Volume (Millions)

	Dec. 18	Dec. 17	Dec. 16
New York	278.498	193.444	194.562
Amex	16.210	14.660	15.790
OTC	149.040	166.813	149.248

NEW YORK		Dec. 17	Dec. 16
Issues Traded	1,979	1,978	1,984
Rises	1,286	626	1,140
Falls	383	992	460
Unchanged	310	360	384
New Highs	6	6	5
New Lows	41	36	53

CANADA

TORONTO	Dec. 18	Dec. 17	Dec. 16	Dec. 15	1987 High	1987 Low
Metals & Minerals	2669.8	2578.7	2655.1	2624.1	3507.5 (5/10)	1988.2 (2/1)
Composite	3157.4	3113.2	3145.8	3144.5	4112.9 (13/8)	2843.9 (10/11)
MONTREAL Portfolio	1603.83	1570.86	1592.63	1600.0	2224.77 (16/7)	1435.94 (26/10)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Portland	2,846,200	21⅞	– ⅛
Putnam Mastr	5,606,100	10	
ATT	3,940,200	29⅛	+ 1⅛
Storage Tec	3,385,900	11⅞	+ ½
Amer Expr	2,479,800	23⅛	+ ⅝
Texaco	2,165,400	38½	+ 2½
Exxon	2,098,300	40	+ 1⅞
Navistar	1,942,600	4⅝	+ ⅛
IBM	1,870,900	117¼	+ 1⅞
East Kodak	1,689,500	50⅞	+ 1¼

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed.(u) Unavailable.

	Dec. 21	Dec. 18	Dec. 17	Dec. 16	1987 High	1987 Low
AUSTRALIA All Ordinaries (1/1/80)	1250.3	1239.7	1250.6	1243.1	2305.9 (21/9)	1151.8 (11/11)
All Mining (1/1/80)	745.2	744.1	755.6	748.2	1462.4 (14/10)	586.9 (11/11)
AUSTRIA Credit Aktien (30/12/84)	181.51	180.56	180.21	179.95	232.19 (22/9)	172.01 (11/11)
BELGIUM Brussels SE (1/1/80)	(u)	3503.8	3525.8	3540.5	5402.2 (13/8)	3503.8 (18/12)
DENMARK Copenhagen SE (3/1/83)	(u)	184.36	185.80	185.82	229.26 (27/8)	179.60 (20/11)
FINLAND Unitas General (1975)	542.7	545.2	546.5	546.7	679.1 (15/10)	425.2 (5/1)
FRANCE CAC General (31/12/82)	287.2	281.7	286.3	287.8	460.4 (26/3)	270.3 (11/12)
Ind. Tendance (31/12/86)	74.5	71.6	72.4	74.9	117.2 (26/3)	69.6 (10/12)
GERMANY FAZ Aktien (31/12/58)	439.10	432.96	438.57	441.35	676.84 (6/1)	400.13 (10/11)
Commerzbank (1/12/53)	1343.9	1329.3	1348.1	1356.7	2061.1 (17/8)	1220.9 (10/11)
HONG KONG Hang Seng Bank (31/7/64)	2278.13	2180.46	2142.23	2145.71	3949.73 (1/10)	1894.94 (7/12)
ITALY Banca Com. Ital. (1972)	500.21	504.36	508.23	508.22	767.34 (30/4)	476.27 (10/11)
JAPAN ** Nikkei (16/5/49)	22956.84	22826.97	22899.83	22819.42	26646.43 (14/10)	18544.00 (13/1)
Tokyo SE New (4/1/68)	1840.44	1833.40	1844.26	1837.05	2258.56 (11/6)	1557.46 (13/1)
NETHERLANDS ANP-CBS General (1970)	212.7	(u)	218.8	212.2	334.1 (14/8)	192.2 (10/11)
ANP-CBS Industrial (1970)	161.5	(u)	162.2	162.6	280.8 (11/8)	147.5 (10/11)
NORWAY Oslo SE (4/1/83)	334.09	326.41	324.32	322.13	592.04 (21/9)	307.48 (10/11)
SINGAPORE Straits Times Ind. (30/12/66)	807.9	773.1	768.6	763.2	1505.4 (26/8)	708.4 (7/12)
SOUTH AFRICA JSE Gold (28/9/78)	(u)	1786.0	1800.0	(c)	2490.0 (3/8)	1440.0 (5/11)
JSE Industrial (28/9/78)	(u)	1425.0	1441.0	(c)	2266.0 (16/10)	1402.0 (23/11)
SPAIN Madrid SE (30/12/85)	233.27	227.37	225.83	219.48	325.41 (6/10)	201.08 (4/12)
SWEDEN Jacobson & P. (31/12/56)	2219.10	2182.66	2180.20	2135.58	3350.40 (9/10)	2068.60 (10/11)
SWITZERLAND Swiss Bank Ind. (31/12/58)	477.6	471.3	474.4	472.1	729.7 (5/10)	450.9 (10/11)
WORLD M.S. Capital Intl. (1/1/70)	(u)	409.3	407.4	407.8	495.9 (27/8)	361.3 (2/1)

** Saturday December 12: Japan Nikkei (c), TSE (c).

Base values of all indices are 100 except Brussels SE – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Metals – 500; (c) Closed.(u) Unavailable.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock		Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25½	14	AAR	s	.36	2.0	16	463	18¼	17½	18⅛	+⅞
32½	19	AFG	s	.16	.6	9	165	27¼	26¾	27⅛	+⅞
27	10½	AGS	s			15	430	17⅜	16½	17	+½
16½	5¼	AMCA					10	6¾	6¾	6¾	−¼
9⅝	3¼	AM	Intl			35	1486	5	4⅝	4⅞	+⅛
65½	29¾	AMR				11	5631	36¾	35⅝	36¾	+⅞
25	19	ANR	pf	2.12	9.9		10	21½	20⅝	21½	+¾
12¼	6⅝	ARX	s			6	192	7⅝	7⅛	7½	−⅛
73½	35⅛	ASA		2a	4.0		536	50⅜	48¾	50¼	+⅞
22⅞	9½	AVX				17	321	13¾	13⅜	13¾	
67	40	AbtLab		1	2.1	18	4976	48⅝	47⅜	48	+⅜
29	15⅜	Abitibi	g				127	20	19¾	20	+¼
15¾	8½	AcmeC		.40	3.6	16	99	11⅜	10¾	11¼	−⅜
10½	5⅛	AcmeE		.32b	4.7	24	35	7	6⅞	6⅞	−⅛
20	14⅛	AdaEx		3.44e	24		572	15⅜	14⅝	14⅝	−¾
19½	6⅞	AdamME		.04	2.5	7	101	9⅞	9½	9⅝	−¼
35	16⅞	AdvSys				14	428	29¾	28⅞	29¾	+⅞
24⅞	7½	AMD					5955	10¾	10¼	10⅝	+⅛
56¾	29¼	AMD	pf	3	9.2		65	32¾	32	32¾	+1
11⅞	4⅝	Adobe					113	5	4⅞	5	
20½	15½	Adob	pf	1.84	11		20	17	16¾	16¾	
21⅞	17	Adob	pf	2.40	12		3	20¼	20	20	−¼
15	6⅞	Advest		.12a	1.6	8	233	7⅝	7¼	7⅜	−½
68¼	43¾	AetnLf		2.76	6.0	6	2240	45⅞	45	45⅝	+¼
99	89½	AetL		pfC5.77e	6.2		1	93	93	93	+1⅛
83½	34¾	AhlPb	s	.40	.8	8	914	51⅞	50⅛	51⅞	+1⅝
26⅞	13	Ahmans		.88	5.7	8	6090	15⅝	14⅞	15½	+⅝
5⅞	1¾	Aileen					220	2⅛	2⅛	2⅛	
53⅞	29	AirPrd		1	2.4	14	2969	40⅞	39⅝	40⅞	+⅝
35	11⅛	AirbFrt		.60	4.3	8	574	14	13½	14	+¾
16½	6¾	Alrgas				15	195	10⅝	10⅛	10⅝	+½
[illegible]											

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Chg
		X Y Z								
65	50	Xerox	3	5.3	12	1920	58¼	58⅜	57	−⅝
58½	52½	Xerox pf5.45		10.		30	53	52⅞	52⅞	−⅛
31½	19⅛	XTRA	.64	3.0	14	83	22	21½	21⅝	−¼
28¾	19½	XTRA pf1.94		8.8		10	22	22	22	+½
33⅞	18¼	Yorkln			10	85	24	22⅞	24	+1¼
7⅛	2¼	Zapata				1015	2⅝	2⅜	2½	−⅛
37	13½	Zayre	.40	2.6	8	2475	15⅝	14⅞	15⅝	−⅛
16⅝	9⅛	Zemex	.40	4.4	8	11	9⅝	d	9⅛	9⅛
33⅝	10	ZenithE				1628	15⅞	16⅝	15⅝	−⅛
13⅞	2⅝	ZenLab				2174	3⅛	2⅞	3⅛	+¼
25½	13½	ZenNtl	.80	5.1	8	240	15⅞	15⅝	15¾	+¼
20⅝	11½	Zero	.36	2.3	15	477	15⅝	14¾	15⅝	+⅝
30¾	15	Zurnlns	.88	3.7	12	295	18¼	18	18¼	+⅛
10⅝	7⅞	Zweig	.92e	10.		605	9	8⅝	8⅞	+¼

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, closing prices

Stock	Sales (Hds)	High	Low	Last	Chng
[illegible]					

Continued on Page 35

Dow drifts up as investors hold breath on budget

Wall Street

CHRISTMAS has begun to take its toll on trading volume and equities drifted without direction or momentum yesterday, *writes Janet Bush in New York.*

At 2pm, the Dow Jones industrial average stood modestly higher at 1,978.61, up 3.31 from Friday's close. The market is *hostage to various major developments* expected over the next few days.

The most important of these is the continuing battle to complete legislation of the bill to cut the budget deficit. Yesterday morning, President Reagan said he hoped a final budget accord would be reached by the end of the day

A statement by the Group of Seven industrial countries on further economic co-operation, news of which boosted the dollar on Friday, depends on the resolution of outstanding disagreements which stand in the way of signing the spending bill.

The dollar traded quietly on currency markets, marginally below Friday's close as wrangling over the budget continued.

The US Treasury bond market was under pressure yesterday after news of a House-Senate conference agreement to increase the Treasury's authority to issue long bonds by $20bn. Concern that the limit would not be raised last week substantially boosted the bond market, particularly 30-year issues. However, the agreement on Sunday to raise the limit now means the Treasury should be able to issue a long bond at both its February and May refundings.

The Treasury's benchmark 8.875 per cent 30-year issue was quoted ¼ point below Friday's close at midsession yesterday although its yield still held below 9 per cent at 8.976 per cent.

Bonds also dipped after some reconsideration of the implications of an imminent statement by the G7. The market had surged on Friday on hopes that the US is now willing to support the dollar. However, yesterday's bond weakness was evidence that many traders are sceptical that any long-term benefit can be gleaned from a mere reiteration of the Louvre accord.

Some retrenchment was to be expected after last week's strong rally which was mostly related to the collapse in crude oil prices. Oil prices were only marginally lower yesterday.

The big corporate news was the settlement between Texaco and Pennzoil, finally reached at the weekend. Texaco dropped $⅝ to $38⅞ after the announcement it will pay Pennzoil $3bn to settle their legal dispute. Pennzoil slumped $1⅞ to $77½. Standard and Poors, the credit rating agency, put both shares on credit watch, with positive implications, after the settlement.

Dyncorp, the electrical contracting company, dropped $1½ to $16⅞ after news that the management group which proposed to buy out the company had revised the terms of its offer, making its terms more complex.

British Petroleum shares jumped $2¾ to $55 after news that the Kuwaiti Investment Office had raised it holding in the company to 16.06 per cent. Atlantic Richfield said, meanwhile, that it had built its stake in Britoil up to 14.7 per cent by the close in London on Friday and had been buying further shares yesterday. ARCO's share price rose $⅛ to $65¾.

Among blue chip issues, IBM added $1⅛ to $118¾, Eastman Kodak was $⅜ higher at $51¼ but Proctor and Gamble was down $½ at $87.

Singer slumped $4¾ to $44½ before the company said discussions with investor Mr Paul Bilzerian and others had led to what it regarded to be a viable takeover proposal. Mr Bilzerian had extended his $50-a-share offer for Singer until Wednesday.

Canada

STRONG mining offset falling gold issues as Toronto shadowed marginal gains in early New York trading.

Of the stronger mining stocks, Inco was C$¼ up at C$27⅞ in busy trade and Cominco C$⅜ higher at C$15. Falconbridge added C$⅜ to C$24½.

Bow Valley rose C$¼ to C$14⅝ after British Gas said it has agreed to buy a 33 per cent stake for C$837m.

Lac Minerals slid C$⅜ to C$13¼ in golds, while International Corona softened C$½ to C$46. Energies were mixed, with Shell Canada up C$¼ at C$33¾, but Texaco Canada off C$1⅛ at C$29¼.

SOUTH AFRICA

THE SLIGHT weakening in the bullion price left Johannesburg share prices easier in slack trade as activity slowed before the Christmas and New Year holidays.

Most gold issues slumped, with heavyweight Vaal Reefs drifting R3 lower to R344 and Harties R1 to R29.75. Mining financials followed suit as Anglo American shed R1 to R56.50.

Elsewhere among minings, platinum share Impala lost 30 cents to R28.50.

Leading diamond stock De Beers gave up 35 cents in sympathy to R30. Other minings were steady.

Industrials ended mixed, with coal-to-oil issue Sasol adding 30 cents to R7.80, but Premier Group losing R1.50 to R34.50.

David Owen in Toronto reviews the fortunes, falls and footing of shares on three resourceful North American exchanges

Canadian markets winter the seasons of change

WHILE many in Toronto's Bay Street financial district will doubtless disagree, Canadian stock markets have actually escaped relatively lightly from the wholesale carnage inflicted since October 19.

The Toronto Stock Exchange's TSE-300 index may have fallen approximately 23 per cent from its all-time high of 4,119 set in August. But it is nonetheless poised to ring out 1987 at a marginally higher level than it rang out 1986. So is the portfolio index at Montreal. Only the composite index at the highly speculative Vancouver Stock Exchange has slumped below its year-ago position - standing about 18 per cent down by December 18.

There appear to be two principal reasons for the comparatively robust performance of Canada's two largest exchanges.

The first is the preponderance of resource-related issues, which still account for 25 per cent of overall TSE-300 capitalisation.

Despite the crash, the value of the TSE's gold/silver sub-index has risen a hefty 44.5 per cent since the end of last year. Metals and minerals are up almost 31 per cent over the same period. Paper and forest products have chipped in with an increment of about 17 per cent. The only laggard has been the important oil and gas sector, whose value has crept up by a paltry 2.2 per cent. These trends reflect what has been a relatively buoyant year for a selection of previously lacklustre commodities markets.

In addition, the Canadian markets were bolstered early in the year by a startling upsurge in the rate of foreign investment, particularly from Europe and the US.

According to Statistics Canada figures, net foreign investment in Canadian stocks soared to C$5bn in the first half of 1987 from C$1.9bn a year earlier. (Over the same period, net investment in bonds slumped from C$22.6bn to C$4.2bn.) More than half the investment came from the US and as much as C$1.4bn originated in the EEC.

These funds – attracted by the positive outlook for resources, first-quarter interest reductions and the perception that Canadian stock markets had tended to lag their global counterparts – helped the TSE-300 begin 1987 in magnificent fettle.

Having ended the year at 3,066, the index hit 3,209 by the end of the first week in January and 3,833 by late March. A further spurt in July and early August pushed it past the magic 4,000 on July 30 and as far as the record 4,119 on August 13. The rest is history. Once the bottom fell out, the market collapsed to the tune of 26 per cent in October, leaving the investment community gasping in disbelief and clutching for superlatives.

However, 1987 would have been a landmark year in the Canadian securities business even without the wild gyrations of the marketplace.

The staged deregulation of the domestic financial services industry got under way on June 30, with the opening up of the domestic securities business. This was followed by a succession of transactions in which major foreign and domestic financial institutions bought into Bay Street investment dealers.

Initially, hopes were high that a still greater level of foreign investment would be attracted by a more internationally-oriented and competitive Canadian equities sector. The peculiarly ill-timed crash promptly nipped such aspirations in the bud. It also sparked retrenchment and a slew of gloomy prognostications for 1988. The chain of buyouts and mergers would in any case have produced a degree of rationalisation, so the argument runs. This process will likely be accelerated without the cushion that a bull market would have provided.

A further talking point for much of the year was the TSE debate between proponents of face-to-face and automated trading. Currently, close to half of the total listings on the exchange are handled by its Computer Assisted Trading System (CATS), with the remainder traded by open outcry.

Despite a plethora of studies conducted over the past two years, the controversial subject remains very much on the agenda going into 1988. The TSE recently commissioned a new C$1.25m study on the subject, which it hopes will identify the most efficient and advantageous way to trade.

EUROPE

Frankfurt takes modest lift from upturn in dollar

EUROPEAN investors took cheer from Friday's firmness on Wall Street and a modest rise in the dollar, but gains were slight and trading thin.

FRANKFURT firmed tentatively in subdued and trendless trade, finding some support as the dollar rose from Friday's record low fix. The midsession Commerzbank index was 14.6 higher at 1,343.9.

Cars reversed Friday's losses, with Porsche recouping DM10 of its DM20 fall to close at DM420, Daimler adding DM12 to DM61 and BMW rising DM19 to DM472. VW jumped DM6.50 to DM234.

BASF and Bayer also firmed, by DM4.80 to DM261.40 and DM4.30 to DM271.30 in turn, while fellow chemical Hoechst made up DM3.70 to DM260.50.

Banks joined the modest rise and Deutsche added DM5 to DM413, while Commerzbank added DM4 to DM228.50.

Retailers, though, had mixed fortunes. Karstadt rose DM5 to DM447 and Horten DM7 to DM163, but Asko and Massa were each DM3 cheaper at DM579 and DM227 in turn.

ZURICH advanced soundly as the dollar firmed, though in meagre trade. The all-share index added 14.9 to 775.1.

Banks picked up slightly from last week's falls, with Union Bank up SFr60 to SFr3,100 and Credit Suisse up SFr60 at SFr2340.

Insurer Swiss Re moved up SFr200 to SFr12,300 and Winthertuhr was SFr50 stronger at SFr4,875. Adia hardened SFr100 to SFr5,900. It said growth has been favourable despite the stockmarket decline.

Industrials, though, saw Oerlikon-Buehrle dip SFr10 against the market to SFr970.

BRUSSELS slumped from a bullish opening to end mixed as investors grew pessimistic over the likelihood of a stable goverment being formed following the general election. The index closing figures were not available because of computer failure.

PARIS advanced in thin trade dominated by domestic institutions a day before the bourse accounting month-end. The CAC opening index was up 6.0 at 287.2.

Elf was a weak exception in otherwise strong blue chips, slipping FFr6.20 to FFr218.80 on lower oil prices.

AMSTERDAM rose marginally in sedate trade. The CBS tendency index closed 0.6 higher at 86.1.

Nedloyd attracted particular interest, closing Fl 8 higher at Fl 125 with blue chips firmer overall. Philips, however, eased Fl 1.30 to close at Fl 27.80.

MILAN fell overall in dim trade. The MIB index ended 6.0 down at 694.0 despite marginal gains among food, paper and textile issues.

MADRID took heart from favourable November inflation figures and the prospect of lower interest rates to move strongly higher. The general index finished 5.90 higher at 233.27.

STOCKHOLM marked its fifth successive advance following a midday buying spree. Forestry stocks were among the brightest.

OSLO perked up in a spate of bargain hunting. The all-share index rose 4.30 to 248.32.

London

THE Christmas trading account opened with a festive flourish as equities drew strongly on overseas market gains. The FT-SE 100 index closed up 33.2 at 1,750.2.

ASIA

Pause in yen's rise prompts gains

Tokyo

STRONG high-technology and pharmaceutical issues lifted equities moderately in Tokyo yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average closed 129.87 up at 22,956.84 after surging 259 during the morning. Turnover was relatively small at 509.31m shares, down from last Friday's 563.35m. Advances outpaced declines by 532 to 342, with 164 issues unchanged.

Major stocks opened firmer on buying prompted by a lull in the yen's appreciation against the US dollar, a lull due in part to the sharp rise in New York stock prices last Friday and progress in Congressional efforts to trim the US budget deficit.

Higher priced stocks in the high-tech sector performed strongly, with Matsushita Electric Industrial setting the pace. Matsushita rose Y80 to Y2,200 on heavy buying triggered by a Nomura Research Institute report that the consumer electronics company would be able to expand profits for fiscal 1988 even at an exchange rate of Y105 to the dollar. Its trading volume swelled to 7.31m shares from 2.57m.

Among other high-tech gainers, NEC, Fujitsu and Hitachi surged Y40 each to Y1,950, Y1,230 and Y1,240, respectively. TDK climbed Y90 to Y4,720 and Fuji Photo Film Y100 to Y4,050.

Nippon Telegraph and Telephone (NTT) jumped Y110,000 to Y2.38m after briefly hitting Y2.40m. The issue was sought largely by bargain hunters as it had tumbled below the Government's second-lot selling price of Y2.55m.

Japan Air Lines ended Y300 down at Y13,500 after slipping below the Government selling price of Y13,400 at one stage.

Strong earnings among pharmaceuticals put them in the spotlight: Takeda Chemical Industries strengthened Y70 to Y3,070, Yoshitomi Pharmaceutical Y20 to Y1,390 and Yamanouchi Pharmaceutical Y50 to Y3,980.

Equipment investment-related stocks drew buying interest, aided by the recovery in private capital spending, with Yokogawa Electric firming Y70 to Y1,460, Amada Y70 to Y1,130 and Fanuc Y170 to Y5,390.

Conversely, large-capitalisation issues slumped almost across the board. Ishikawajima-Harima Heavy Industries shed Y1 to Y685 on the largest volume of 47.75m shares, while Kawasaki Steel closed unchanged at Y353.

Smaller-capital issues firmed on speculative buying. Japan Synthetic Rubber gained Y11 to Y911, Tobishima Y60 to Y1,600 and Atsugi Motor Parts Y23 to Y648.

Bonds firmed, although trade was suspended in the morning due a computer malfunction affecting inter-dealer trading in the bellwether 5.0 per cent government bond due in December 1997.

Futures extended last week's gains on buying by life insurance companies and financial institutions related to agriculture and forestry.

The yield on the benchmark bond plunged from last week's 4.560 per cent finish to 4.515 per cent. At one point it hit 4.500 per cent.

On the Osaka Securities Exchange, the OSE Stock Average rallied 121.31 to 23,226.14 on buying of electricals. Volume fell 1.17m to 94.57m shares.

Rohm surged Y260 to Y4,140 and Nichicon Capacitor Y180 to Y1,290, while Santen Pharmaceutical slumped Y70 to Y1,430.

Australia

BUYING dominated what little activity there was in Sydney with investors cheered both by stronger base metal prices and New York's strong Friday. The All Ordinaries index ended 10.5 higher at 1,250.7.

News Corp shone among strong industrials with a 30 cent gain to A$10.10, while CSR moved on 11 cents to A$2.98. In strong banks ANZ climbed 12 cents to A$3.65 and Wespac rose 7 cents to A$4.84.

Another rise in nickel, aluminium and copper prices put 18 cents on CRA to A$6.14. Golds were mixed on the weaker bullion price.

Singapore

BRUSHING aside a spell of profit-taking, Singapore share prices closed sharply higher on positive signals from overseas markets. The Straits Times Industrial index was 34.84 up at 807.96, a 4.5 per cent rise.

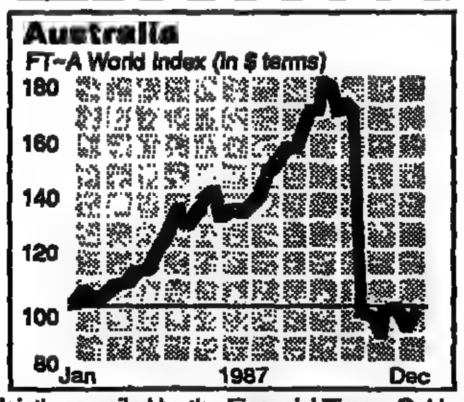
Blue chip gains were paced by a 40 cent rise from Fraser and Neave to S$7.50, while Singapore Airlines rose 25 cents to S$9.15. In banks, DBS added 30 cents to S$9 and OCBC, which said its 50.71m share rights issue was more than 10 per cent oversubscribed, added 15 cents to S$6.35.

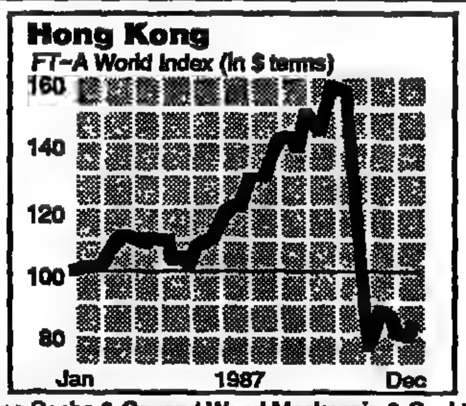
Hong Kong

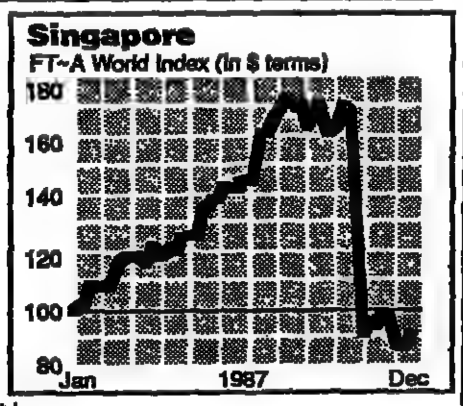
THE HEAVIEST buying in Hong Kong for a month, notably by local investors, gave a strong boost to share prices. Higher stock index futures and the Friday gain on Wall Street helped underpin the 97.67 rise to 2,278.13.

Banks led generally strong blue chips, with Bank of East Asia up 70 cents at S$18 and Hongkong Bank 40 cents up at S$7.

THE YEAR IN FOCUS







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In conjunction with the Institute of Actuaries and the Faculty of Actuaries.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY DECEMBER 18 1987					THURSDAY DECEMBER 17 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (88)	96.34	−1.1	78.22	89.80	4.62	97.41	78.68	90.40	180.81	85.36	100.61
Austria (16)	96.62	−0.4	78.45	81.87	2.57	96.98	78.34	81.75	102.87	85.53	94.60
Belgium (48)	95.54	−0.6	77.58	80.70	5.88	96.14	77.66	81.09	134.89	94.63	94.95
Canada (127)	109.82	+1.6	89.16	103.89	3.00	108.13	87.34	102.22	141.78	98.15	100.39
Denmark (38)	113.53	−1.0	92.18	97.16	3.07	114.64	92.60	97.45	124.83	98.18	96.28
France (121)	84.77	−1.4	68.83	73.47	3.64	86.01	69.47	74.07	121.82	77.39	101.09
West Germany (93)	76.15	−1.9	61.83	64.65	2.96	77.63	62.71	65.46	104.93	68.91	95.64
Hong Kong (46)	84.38	+1.6	68.51	84.28	6.62	83.07	67.09	82.82	158.68	73.92	95.77
Ireland (14)	101.85	−1.6	82.70	88.02	5.17	103.55	83.64	89.10	160.22	93.50	96.52
Italy (94)	78.20	−1.5	63.49	70.14	2.75	79.38	64.11	70.72	112.11	72.04	94.22
Japan (457)	143.94	−1.2	116.87	115.55	0.61	145.72	117.70	116.25	161.28	100.00	97.78
Malaysia (36)	104.68	+0.5	84.99	100.49	3.60	104.13	84.11	99.76	193.64	93.76	99.75
Mexico (14)	105.49	−2.9	85.65	263.55	1.14	108.67	87.78	271.49	422.59	99.72	99.77
Netherland (37)	95.76	−0.7	77.75	80.33	5.64	96.42	77.88	80.33	131.41	87.70	97.60
New Zealand (20)	76.01	+0.9	61.72	62.34	5.40	75.32	60.84	61.88	138.99	75.04	98.51
Norway (24)	96.43	−1.3	78.29	83.70	3.28	97.67	78.89	84.35	185.01	95.51	97.04
Singapore (26)	90.74	+0.6	73.67	83.77	2.90	90.20	72.86	83.01	174.28	82.21	101.57
South Africa (61)	133.80	−4.0	108.64	92.14	4.81	139.37	112.57	93.04	198.09	100.00	102.37
Spain (43)	129.95	−0.2	105.51	108.98	3.86	130.19	105.16	108.64	168.81	100.00	97.22
Sweden (34)	98.30	+0.6	79.81	86.29	2.66	97.66	78.89	85.45	136.64	88.50	97.24
Switzerland (53)	80.09	−1.4	65.03	65.84	2.54	81.21	65.59	66.30	111.11	73.65	94.83
United Kingdom (332)	128.56	+0.2	104.39	104.39	4.48	128.32	103.64	103.64	162.87	99.65	94.27
USA (581)	101.30	+2.3	82.25	101.30	3.65	98.99	79.95	98.99	137.42	91.21	103.42
Europe (947)	101.86	−0.6	82.70	85.11	3.99	102.44	82.75	85.12	130.02	92.25	95.63
Pacific Basin (673)	139.82	−1.2	113.52	113.35	0.83	141.46	114.26	113.98	158.77	100.00	97.85
Euro–Pacific (1620)	124.67	−1.0	101.22	102.07	1.87	125.89	101.68	102.45	143.65	100.00	96.96
North America (708)	101.75	+2.3	82.62	101.47	3.61	99.47	80.34	99.19	137.55	91.68	103.26
Europe Ex. UK (615)	85.29	−1.3	69.25	73.00	3.52	86.39	69.78	73.49	111.97	78.89	96.48
Pacific Ex. Japan (216)	89.97	+0.0	73.05	84.87	5.20	89.95	72.66	84.60	164.03	82.92	98.76
World Ex. US (1822)	124.25	−0.9	100.88	102.16	1.94	125.41	101.30	102.49	143.38	100.00	97.14
World Ex. UK (2071)	114.07	+0.1	92.62	101.63	2.29	113.90	92.00	101.09	138.82	100.00	100.11
World Ex. So. Af. (2342)	115.23	+0.2	93.56	101.92	2.50	115.02	92.90	101.34	139.47	100.00	99.57
World Ex. Japan (1946)	101.66	+1.1	82.54	95.06	3.81	100.55	81.22	93.78	134.22	92.98	100.45
The World Index (2403)	115.35	+0.2	93.66	101.88	2.51	115.18	93.03	101.31	139.73	100.00	99.58

Base values: Dec 31, 1986 = 100

Latest prices were unavailable for this edition.

SECTION III

FINANCIAL TIMES SURVEY

Two events mark a turning point in the affairs of the world's seventh largest economy in output terms: the expected bilateral free trade agreement with the US, and an accord that will bring Quebec into the federal fold. **David Owen** reports.

Canada

CONTENTS

Links to US bind tighter

ANOTHER YEAR of calm prosperity for most Canadians is drawing to a close.

Canada's real gross domestic product is estimated to have risen by some 3.5 per cent - its fifth straight year of recovery.

Unemployment continues to decline to about 9 per cent from almost 12 per cent in 1983. And inflation, though on the high side, remains firmly under control at about 4.6 per cent.

Canada, the world's seventh largest economy in terms of output, has had what is in many respects a most eventful year, counterpointed by developments which will leave a deep and far-reaching impression for years to come.

Few will leave a deeper imprint than the so-called Meech Lake accord, which promises to bring Quebec into the federal constitution rejected by the recently-deceased M. Rene Levesque and the Parti Quebecois in 1982.

The deregulation of financial services, the first stage of which clicked into place on June 30, will also have profound implications, as evidenced by the flurry of deals which have given control of several prominent Bay Street investment dealers to major banks in the succeeding six months.

However, the year ended on a sour note for the financial services industry, as the October stock market crash raised the spectre of lay-offs and retrenchment in a sector until then awash in the proceeds of a five-year bull market.

Meanwhile, the Dome Petroleum affair has edged sometimes imperceptibly towards a satisfactory conclusion, with the odds now firmly favouring a successful takeover of Canada's largest independent oil and gas producer by US-based Amoco after a sweetening of its initial bid.

Overshadowing everything, of course - even Meech Lake - has been the bilateral free trade agreement initialled by Canadian and US negotiators on October 4, after 17 months of sometimes acrimonious exchanges, and translated into final legal form earlier this month.

The very real political risk taken by Canada's Prime Minister, Mr Brian Mulroney, in embarking on free trade negotiations underlines the importance of trade to a nation which ships 30 per cent of its gross domestic product to export.

It also indicates the extent to which Canada has lost control of vital aspects of its own economic destiny. The enviably high living standards currently enjoyed by the 25m people who live in this vast, diverse and sparsely-populated country are peculiarly and increasingly dependent on trends and decisions initiated elsewhere.

More than three-quarters of all Canadian exports (up from 60 per cent in 1980) are consumed by a single trading partner: the US. This heavy concentration of trade flows has developed despite rather than because of domestic trade policy.

The major driving forces behind it have been sheer geographic closeness and the erosion of Canada's competitiveness in other markets owing to a string of international initiatives beyond its control.

These include the formation and expansion of the EEC and the European Free Trade Association, the system of preferences granted to developing countries and the dismantling of Commonwealth preferences.

This process has propelled the Canadian economy into a state of ever more inextricable linkage with that of its powerful southern neighbour. Canada's interest rates - though higher than their US counterparts to attract foreign capital and bolster the Canadian dollar - have traditionally marched to the same drummer.

The currency itself, burdened by a federal budget deficit which far outstrips the much-maligned US dollar relative to the size of the two economies, has shared in the headlong post-Black Monday slump of its US cousin.

And the overhaul by Mr Michael Wilson, the Finance Minister, of Canadian tax laws, which is currently before parliament, is one of a number of initiatives in various countries which are close in thrust to the US reform package of 1986.

It has also meant that when the US protectionist bandwagon starts rolling, Canada, excluded from major international trading blocs and without a large domestic market of its own, has little choice but to sit up and take notice.

It was with the aim of mitigating the threat posed to Canadian prosperity by what was perceived as the increasingly aggressive application of US trade law that Mr Mulroney effectively burnt his boats and decided to embark on negotiations.

While the mood of the country was judged by some to be in favour of an agreement, the need to safeguard security of access to the vast and lucrative US market was, in any case, felt to override worries about the likely political fallout.

By rubbing the free trade lamp - a deed which twice proved the undoing of Liberal leader, Wilfrid Laurier, in the general elections of 1891 and 1911 - Mr Mulroney has summoned not genies but the apparently contradictory Canadian shibboleths of self-deprecation, fear and nationalistic fervour, which irresistibly bubble to the surface whenever the status quo is threatened.

The appeals to Canadian gut nationalism being invoked by free trade supporters and opponents alike, risk obscuring some valid reservations regarding the preliminary pact signed on the briefcase of Prime Ministerial chief of staff, Mr Derek Burney, some eleven weeks ago.

These pertain both to the degree of security of access which Mr Mulroney's negotiators have in fact achieved and the price which they have had to pay to achieve it.

These reservations are examined at greater length elsewhere in the survey. Meanwhile, it is perhaps significant to note that the opposition Liberals and New Democrats alike are marshalling forces to fight a tooth and nail battle against "a bad Mulroney trade deal" rather than the concept of freer US trade per se.

With the trade talks between the US and Canada safely in full flow, Mr Mulroney retreated into the Gatineau Hills, outside Ottowa, with the ten provincial premiers last April and emerged with the Meech Lake constitutional accord, which brings Quebec into the federal constitution.

The accord, which recognises Quebec as a "distinct society" and decentralises some powers from Ottawa to the provinces, was recently endorsed in resounding fashion by the Conservative-dominated House of Commons. However, the full ratification process is long and complicated and may not be completed for three years.

While the accord has gained multi-party support, due partly to the perceived importance of bringing Quebec into the constitution, it is not without its critics. These include women's and indigenous ethnic minority groups such as North American Indians, who claim that its passage would be a setback for their respective rights, and the Yukon and Northwest Territories, who feel that it will hamper their passage towards full-fledged provincial status.

But the best Meech Lake critic by far is Mr Pierre Trudeau, the most illustrious of Mr Mulroney's recent predecessors.

Mr Trudeau and his supporters within the Liberal ranks maintain that the pact heralds a sea change in the role of the federal government which will circumscribe its ability to establish national programmes in the likes of technology and health and will undermine both the country's international competitiveness and its national spirit.

As the next election, due to be called by September 1989, approaches, Mr Mulroney has armed himself with the wherewithal to refute claims, however far-fetched, that the two major policy achievements which will probably dominate the campaign - the trade deal and Meech Lake - will simply lead the country in the first casedown the road to glorified statehood or, in the second, to fragmentation.

Last June's defence White Paper committed the Government to an extensive military re-equipment programme to make good the neglect of the Trudeau years, which includes the purchase of a fleet of nuclear-powered submarines.

While there is considerable doubt that the budgeted 2 per cent per annum real hike in overall expenditure (to be supplemented at the Cabinet's discretion by additional funding for certain big ticket items) will be enough to pay for the overhaul, the symbolism is potent and should work in Mr Mulroney's favour.

In addition, the Prime Minister has lavished money, time and effort to raise Canada's profile on the world stage.

On one level, this has entailed hosting a string of international events, such as Expo '86 and this year's Francophone and Commonwealth summits. If anything the pace will quicken in 1988 with the Calgary Winter Olympics, the chess world title candidates' matches in Saint John, New Brunswick and the industrial Group of Seven summit in Toronto all scheduled to take place on Canadian soil.

Mr Mulroney's international initiative has also extended to taking steps to differentiate US and Canadian foreign policy, particularly on Latin America. A recent visit to the region by the External Affairs Minister, Mr Joe Clark, culminated with the as yet unofficial suggestion that Canadian troops might be sent there as peace-keeping observers.

As the election clock ticks away, the Tories' showings in repeated opinion polls have finally started to pick up from the lacklustre levels recorded during most of this yrear, although Mr Mulroney's problem of his own personal credibility is still an increasing cause for concern.

With Mr John Turner's somewhat revitalised Liberals back at the head of the pack and the NDP's Mr Ed Broadbent seemingly established as the most popular of the three party leaders, the one thing of which Canadians seem assured when Mr Mulroney asks them for a second term, is an extremely lively and open three-horse race.

Public support for the ruling party has declined heavily

Election test for Mulroney

BRIAN MULRONEY has had bitter experience of the sea changes of political opinion. Elected in 1984 on a tide of popularity, he watched his poll ratings ebb within months of arriving at 24 Sussex Drive, the Prime Minister's residence in Ottawa.

Sometime in the next two years, he must test the waters again. Increasingly, the betting is that he will take the plunge early rather than late.

Mr Mulroney must be grimly aware that the Progressive Conservative Party, like its transatlantic cousin, will not be forgiving of failure.

When John Diefenbaker's government was defeated in 1963, it allowed the Liberals - the party of government for most of this century - to take back what they considered rightfully theirs anyway. Since then, apart from a short period in 1979-80, the Grits (Federal Liberals) have held sway in Ottawa for 21 years.

So when the country put Mr Mulroney into office with 211 of the 282 seats in 1984, reducing the Liberals to a rump, it seemed a unique opportunity. Like Mr Diefenbaker before him, Mr Mulroney came to power declaring that the country had voted for change.

Three years after his arrival in Sussex Drive, Mr Mulroney faces a paradoxical situation. On the one hand, he has some considerable achievements to his name: the constitutional accord with the provinces which brought Quebec in from the cold, a package of tax reform, a defence White Paper, and now, a landmark free-trade agreement with the US. The economy is relatively strong, the public sector deficit is coming under control, and unemployment is on its way down.

But none of these achievements is reflected in the PC's share of public support, running at around 25 per cent in the last Gallup poll compared to its share of 50 per cent of the popular vote in 1984.

The party has seen a series of by-election defeats and, at provincial level, Conservatives have tumbled like ninepins, most recently in New Brunswick where the Liberals swept the board.

The Conservative administration lacked experience when it entered office and it showed - painfully. The first 18 months were littered with resignations, corruption scandals and accusations of patronage.

Perhaps even more important than the mishaps was the inept manner in which each affair was handled. Those first 18 months hang over the Government like black clouds.

The task before Mr Mulroney is to correct his public image, pull his poll ratings off rock-bottom and regroup his forces.

Brian Mulroney: saddled with an image

In the Government's view, the central problem is a failure of communication. Mr Mulroney's achievements have not connected with the man or his government. Despite his achievements, he has failed to convince the people that he has a vision of where the country is going.

"There is a very serious perception problem," says Bill Fox, former Press secretary in the Prime Minister's Office. He lays much of the blame at the feet of the "Toronto media mafia" but admits that to some extent the Prime Minister's Office itself has been responsible.

"There was a tendency to assume that the merits of the man would show through," he says, "but they haven't."

Persistent doubts certainly surround Mr Mulroney's sincerity and credibility. He is seen as glib, superficial, and too eager to attempt to maximise any public relations advantage.

His achievements tend to appear as manifestations of personal ambition rather than genuine conviction, and he is saddled with the image of a media-obsessed opportunist.

To some extent, he has been lucky. For all the popular disdain for Mr Mulroney and his breed of progressive conservativism, both of the opposition parties have had serious problems in articulating a clear, electorally credible alternative.

The Grits if anything have faced worse problems than the PCs. Though his party stands at 40 per cent in the polls, Liberal leader John Turner has failed to galvanise public interest and has been unable to pull his party together. It remains deeply split over both the Constitutional Accord and the free trade agreement.

The main beneficiaries of Mulroney's decline have been the NDP, Canada's left-of centre opposition party with its heart in the Western provinces. Though it has never managed more than 20 per cent of the vote in a general election, the NDP's popular support has soared, to about 33 per cent in the last Gallup poll.

Its policies - anti-Nato, anti-free trade and environmentalist - may cause dyspepsia in Washington and London, but the NDP has at least temporarily caught a wave of public feeling.

Mr Mulroney's widespread credibility problem and Mr Turner's inability to create a coherent opposition have left the field open. Mr Broadbent, who consistently beats Mr Turner and Mr Mulroney in the leadership stakes, has leapt into the breach.

The Conservatives have now started to tackle some of their problems. In the last year, Mr Mulroney has replaced most of the PMO, in an attempt to manage communications and policy execution more effectively. The new team, headed by Mr Derek Burney, has won widespread respect.

The Prime Minister has also reshuffled his Cabinet, eliminating some of the more controversial figures and drawing in more representatives from Quebec. But the question remains as to whether Mr Mulroney can convince the electorate that his policies give the country the right direction as it heads into next decade.

The keynote issue is the free trade agreement, which Conservative leaders believe will determine the party's electoral fortunes. Free trade has generated enough controversy to crowd out most other issues from the political agenda - at least temporarily.

The Government has gone to great pains to identify itself with the agreement, even though much of the momentum began during the last Liberal government. There is a great deal of sentiment, both in the opposition and the Government, to make an election out of it.

An election does not need to be held before September 1989, and it must be tempting for Mr Mulroney, with his massive majority, to sit it out. But there is pressure on the Government to go early rather than late because of expectations of declining growth and rising unemployment next year.

The electorate is highly volatile, and nobody really knows what the dynamics of an election would be. All the parties can create scenarios where they come out on top.

The PCs are aware that free trade is more popular than they are, and would like to profit from it. The opposition, particularly the NDP, would like nothing better than to capitalise on their high poll ratings.

The NDP is clearly aware that they will have problems differentiating themselves from the Liberals over free trade, and that many of their other policies will not hold up under scrutiny. Mr Mulroney, with a defence White Paper under his belt, would love to get stuck into their anti-Nato stance, for instance.

But it is unlikely that the NDP will get a clearer shot: many in the party are concerned that they have peaked, and that if the Liberals organise, support will start to drift.

Continued on next page

The far-reaching deal between Canada and the US is a predominant theme of national debate, says **David Owen**

Misgivings over outcome of free trade pact

ON JANUARY 1, 1989, if all goes to plan, a free trade agreement between Canada and the United States - the world's two largest trading partners - will come into effect which aims to eliminate many of the barriers to trade in goods and services which traditionally have separated the two economies.

The prospect has gone virtually unnoticed in the US, where most eyes have been trained on Irangate, the trade and budget deficits and the Gulf.

In Canada, however, the deal is the predominant theme of national debate, with discussion of the far-reaching changes which free trade will wreak seldom far from the front pages.

Since a preliminary transcript of the agreement was initialled by both sides in early October, the parameters of this debate have shifted away from free trade with the US in the abstract towards the specifics of the commitments enshrined in the present deal.

And during the course of these ten weeks, one area of paramount importance to Canadian interests has emerged as the principal focus of Canadian misgivings.

One of the prime reasons, from the Canadian viewpoint, for embarking on the talks in the first place, was the desire of domestic exporters to secure protection from what they perceive as the increasingly aggressive and capricious application of US trade law against foreign suppliers.

Thus the establishment of an impartial mechanism for settling anti-dumping and countervailing duty-related disputes has been a fundamental Canadian objective from the outset.

What the negotiators have come up with is the recommendation that a bi-national panel should be set up to review such disputes.

However, the panel's mandate will extend only to assessing whether or not trade actions taken by either side are in accordance with existing law. The matter of actually amending laws will be considered over a five to seven-year period in a separate bilateral process.

The question of the degree of protection which this process will provide has now become the epicentre of the trade debate in Canada.

The onus is on the pact's critics to propose a realistic alternative which would not risk a fairly substantial decline in living standards

Defenders of the deal, like one senior government spokesman, believe that the powers of the panel would put "some extremely formidable hurdles in the way of harassing actions." Opponents, like the Liberal MP Mr Brian Tobin, describe the tribunal as "a shell, a farce" whose "only function is to determine that US law, once written, has been properly applied."

A final assessment will probably have to wait until the definitive legal text of the agreement - completed about six weeks behind schedule on December 7 - has been fully analysed.

Meanwhile, the question of the panel's likely effectiveness has divided even the legal profession. Of four law firms which have so far offered opinions on the subject, two have concluded that on nthe whole the tribunal will be effective and two that, on the whole, it will not.

Two further areas of the agreement, which includes commitments to phase out most bilateral tariffs within ten years, to eliminate Canadian import licences for wheat, barley and oats when support levels in the two countries are equivalent, and to allow Canadian banks to underwrite Canadian government securities in the US, have proved particularly controversial in Canada.

First, on the sensitive subject of US investment, Canada has undertaken to raise its threshhold for screening a direct acquisition of a domestic firm by a US investor over a four-year period to companies with assets of C$150m.

In addition, Canada is to phase out its scrutiny of indirect takeovers, where a US subsidiary in Canada changes hands because of a takeover of its parent company, also over four years.

Second, the two sides have agreed to the creation of a North American continental energy market whereby Canada will receive assured market access to the US in return for providing a secure energy supply in times of shortage.

This will entail treating US customers as Canadians. However, Canada will be free to proceed towards its objective of 51 per cent domestic ownership of the energy sector.

For the moment then, the preliminary transcript has given impetus to the opponents' cause by furnishing them with a number of specific targets to shoot at.

Its existence has enabled both opposition parties to take stances unequivocably against what one spokesman described as "a bad Mulroney trade deal" without being cast as enemies of free trade.

In the longer run, however, no matter how many holes can be picked in the Mulroney deal, the onus is on the pact's critics to propose a realistic alternative which would not risk a fairly substantial decline in living standards should the protectionist bandwagon gain more ground.

Thanks to its own enterprise and its relatively small domestic market, Canada is heavily dependent on foreign trade; about 30 per cent of gross domestic product goes to export.

But of that 30 per cent, no less than 77 per cent these days is sold to a single country: the US.

This proportion has tended to increase in recent years, despite initiatives aimed at diversifying trade flows, like the so-called Third Option, formulated in response to tough protectionist measures introduced by the Nixon administration in 1971.

Clearly, Canada - a nation without guaranteed access to other major markets or trading blocs - risks souring that trading relationship at its peril.

In other words, despite the shortcomings of the deal that has been struck, Canadians need to think very carefully about the vulnerability of their trade-related incomes before they try to derail it.

Halifax, Nova Scotia - the provinces are keeping a close eye on 'Mulroney's trade deal.'

The economic boom has been weakened by lower personal savings

Bid to hold inflation and cheer the dollar

CANADA'S economy began showing signs of exhaustion even before October's stock market shake-out.

The cracking pace from 1984 to mid-1987 - a period during which real gross domestic product has climbed by an average 5 per cent a year - could not be sustained much longer.

The two mainsprings of the boom - consumer spending and housing - have been weakened by a sharp decline in personal savings (now at their lowest level in 15 years), by last spring's shift in interest rates and by a surge in the supply of new housing.

Growth in GDP is expected to slow from an annualised 6 per cent in the first half of this year to 2.5 per cent or less in 1988. Housing starts, which reached an annualised record of 281,000 units last August, are likely to fall back below 200,000 next year. GDP growth had already slipped back to an annualised 4.4 per cent in the third quarter of 1987.

The impact of the stock market crash is still hard to assess. Although most economists have slightly lowered their 1988 forecasts, hopes are still high that the Bank of Canada's efforts to sustain growth by relaxing monetary policy will offset the stock market's blow.

Banks' prime lending rate, which rose from 8.75 to 10.5 per cent between March and mid-October, dropped back to 9.75 per cent in the weeks following the crash.

Like its counterparts elsewhere, the Bank of Canada faces the dilemma of whether to risk higher inflation by keeping a loose rein on the money supply, or face slower growth by tightening liquidity and raising interest rates again.

The rise in interest rates earlier this year was sparked by concern that inflation was starting to creep up. The rise in the consumer price index accelerated from 4 per cent in the first quarter of this year (compared to the same period in 1986) to 4.6 per cent between April and June.

Signs of an overheated economy became visible earlier this year in southern Ontario and Quebec, where growth has been even higher than the national average. Shortages of skilled construction workers and building materials have helped fuel a sharp rise in housing costs.

With Ontario enjoying an unemployment rate of about 6 per cent (compared to the national average of 9 per cent), upward pressure on wages has posed a growing threat to price stability.

Operator in a steel mill. Upward wage pressure threatens price stability

Canada's interest rates have traditionally followed those in the US, with a premium of between one and two percentage points to attract foreign capital and dampen downward pressure on the Canadian dollar.

But Mr John Crow, the new governor of the Bank of Canada, signalled a fresh priority earlier this year. In a keynote speech in Toronto last April, he said that: "The objective to which monetary policy should give central attention is maintaining confidence in the value of the money we use in Canada."

He added: "Financial policies directed at lowering inflation may, for a while, slow the expansion of demand in the economy."

The determination to hold down inflation has contributed to bullish forecasts for the Canadian dollar. McLeod Young Weir, the Toronto securities firm, predicted recently that the Canadian currency, which has traded between 75 and 77 US cents for most of 1987, will rise to 80 US cents within the next two to three years.

Such optimism is not universal. Bank of Nova Scotia expects the Canadian dollar to hover between 72 and 76 US cents over the next 12 months. The bank contends that wider interest rate spreads will be offset by flagging interest among foreign investors in Canadian equities. Foreign purchases of shares contributed more than half of the C$20bn capital inflow in the first six months of 1987.

The federal budget[1]

Percentage change

	1986/1987 Estimates[2]	1986/1987 Estimated outcome[3]	1987/1988 Estimates[3]
Direct taxes			
Persons	10.1	14.8	9.4
Corporations	8.5	−14.0	10.3
Indirect taxes	12.7	16.5	11.1
Investment income	1.5	3.9	5.7
Transfers from other levels of government	..	..	..
Other[4]	15.7	7.9	5.2
Revenue	9.8	10.1	9.4
Current consumption	6.5	4.2	4.4
Capital formation	−16.8	−2.0	−6.9
Transfers to persons	5.7	7.3	4.6
Debt interest	7.3	7.4	3.6
Subsidies	−2.7	3.9	30.2
Transfers to other levels of government	3.8	5.0	8.2
Other[5]	−1.5	−0.8	−13.2
Total expenditure	4.7	5.6	5.3
Surplus (+), deficit (−)			
$ billion	−23.2	−26.1	−23.6
As per cent of GDP	−4.8	−5.1	−4.4

1. National accounts basis, fiscal years April to end-March.
2. According to February 1986 Budget.
3. According to February 1987 Budget.
4. Withholding tax, transfers from non-residents, other current transfers from persons and capital consumption allowances.
5. Capital assistance and current transfers to non-residents.

Source: Department of Finance, *The Fiscal Plan*, February 1986 and February 1987.

The outlook for the dollar depends partly on further progress in cutting the federal government's budget deficit, which is much higher than that in the US relative to the size of the two economies.

Although Mr Michael Wilson, the Finance Minister, has trimmed the deficit from C$38.3 bn when the Tories took office in 1984 to a target of C$29.3 bn in the fiscal year ending next March 31, pressure to loosen the purse strings is bound to rise as the economy slows and the next general election draws nearer. In particular, several large defence contracts are in the offing.

Mr Wilson has promised that a sweeping package of tax reforms outlined earlier this year will be neutral in terms of total government revenues. The politically sensitive reforms aim to offset cuts in personal tax rates with a broader corporate tax base and a new broad-based national sales tax.

The proposals include a cut in the top marginal rate for individuals from 34 per cent to 29 per cent, but eliminate several tax shelters for both individual and corporate taxpayers.

Having spent the past six months canvassing views on his proposals from a wide range of interest groups and from two parliamentary committees, Mr Wilson's final package may differ somewhat from his original plans.

One encouraging development in the economic outlook for 1988 is the prospect of more balanced growth across the country. The drop in oil prices in 1985 and the weak international grain market have severely depressed the Alberta and Saskatchewan economies.

Alberta's output is expected to shrink by more than 1 per cent this year. Meanwhile, Quebec and Ontario have been expanding by more than 5 per cent a year.

The gap is likely to narrow thanks on the one hand to the impact of higher energy prices and generous tax concessions to the western oil and gas industry, and on the other to the expected slowdown in the automotive and housing industries and in consumer spending in the two central provinces.

The Conference Board of Canada predicts a fairly narrow gap in provincial growth rates next year, ranging from a low of 1.7 per cent on Prince Edward Island to a high of 3.4 per cent in Alberta.

Bernard Simon

Bernard Simon is Business Editor of the Financial Post of Canada

Profile: Robert Bourassa

Reading the mood

QUEBEC'S PREMIER, Robert Bourassa, can look back on his 21 years in politics with some satisfaction. His government is starting the third year of its mandate with a 57 per cent popularity rating and the Opposition Parti Quebecois is in disarray.

Yet only eleven years ago Mr Bourassa, 54, was left for dead by his colleagues as the Quebec Liberals went down to defeat by the separatist PQ. He immediately took off to study the European Economic Community and later lectured in the United States.

Many had blamed him for the cost overruns of the 1976 Olympics in Montreal, the impossible demands of the Quebec labour unions, and language problems. But Canada was part of the inflationary post-1973 energy crisis world.

Mr Bourassa was often indecisive, and even vacillating, as he tried to create consensus, but much of what happened was far beyond the control of any provincial premier.

His passion for politics undiminished, Mr Bourassa kept his home and his political connections in Montreal after the 1976 defeat. He returned to the political stage in the early 1980s as the PQ government bogged down in constitutional wrangling and the disastrous impact of the 1982-83 recession.

In 1983 he recaptured the Quebec Liberal leadership and worked ceaselessly to rebuild its electoral base and its image as the party of sound economic management.

Many Quebec Liberals did not really want him back, saying he was a loser in 1976, but Mr Bourassa correctly read the mood of the times before the provincial elections of December 1985. The voters wanted better government and more economic growth.

The Liberals swept in with 99 seats out of 122 in the National Assembly, and the victory was largely Mr Bourassa's. Not only did he win the Anglophone vote despite suspicions of being soft on language equality, but he also won a clear majority of the Francophone vote.

The PQ could no longer say the Liberals were *vendus* and the party of the Anglos.

Mr Bourassa - slightly built, studious in manner and master of repartee, but no orator - entered politics in 1966, won the Liberal leadership in 1970 and his first election the same year. At 37 he was the youngest ever premier of Quebec.

He promised to ensure a decade of growth with the C$14.5bn James Bay hydro project in the north. Within months though Quebec was plunged into a separatist crisis with the kidnapping of the British diplomat James Cross.

Robert Bourassa: ambition

The Front de Liberation du Quebec numbered only 25 serious terrorists but the crisis led to the imposition of the controversial War Measures Act by the Federal Prime Minister, Pierre Trudeau.

Mr Bourassa comes from a middle class Francophone background in Montreal and his father was a federal civil servant. He studied at the universities of Montreal, Harvard and Oxford and holds degrees in law and economics. He married into the wealthy Simard shipbuilding family and his son Francois is an accomplished jazz pianist and composer.

He swims 20 pool lengths daily whether in Quebec City, Montreal, Washington or Paris. He prefers baseball to ice hockey and is an addicted student of the media.

His ambition is to retain a strong voice for Quebec in the Canadian federation and in North America by a careful balance of political autonomy and economic cooperation. And he dreams of a second James Bay hydro project, based on the export of power to the United States and Ontario.

Robert Gibbens

Election test

Continued from previous page

The Liberals are thought to have the "hardest" core support. Though their leadership is flawed, they have a more credible national policy mix than the NDP, and considerably more experience.

There are signs that a unified front is forming within the party over free trade, though this could well unravel under pressure.

Mr Fox remains optimistic about Mr Mulroney's chances. "The building blocks are all there," he says. In his view, the first few months of 1988 will be crucial. The PCs must establish "a critical mass" of support through free trade, and then set the electoral ball rolling.

He believes that if Mr Mulroney can hold the Western provinces and Quebec, the party can afford "to take its chances in Ontario," where opposition to the accord is firm.

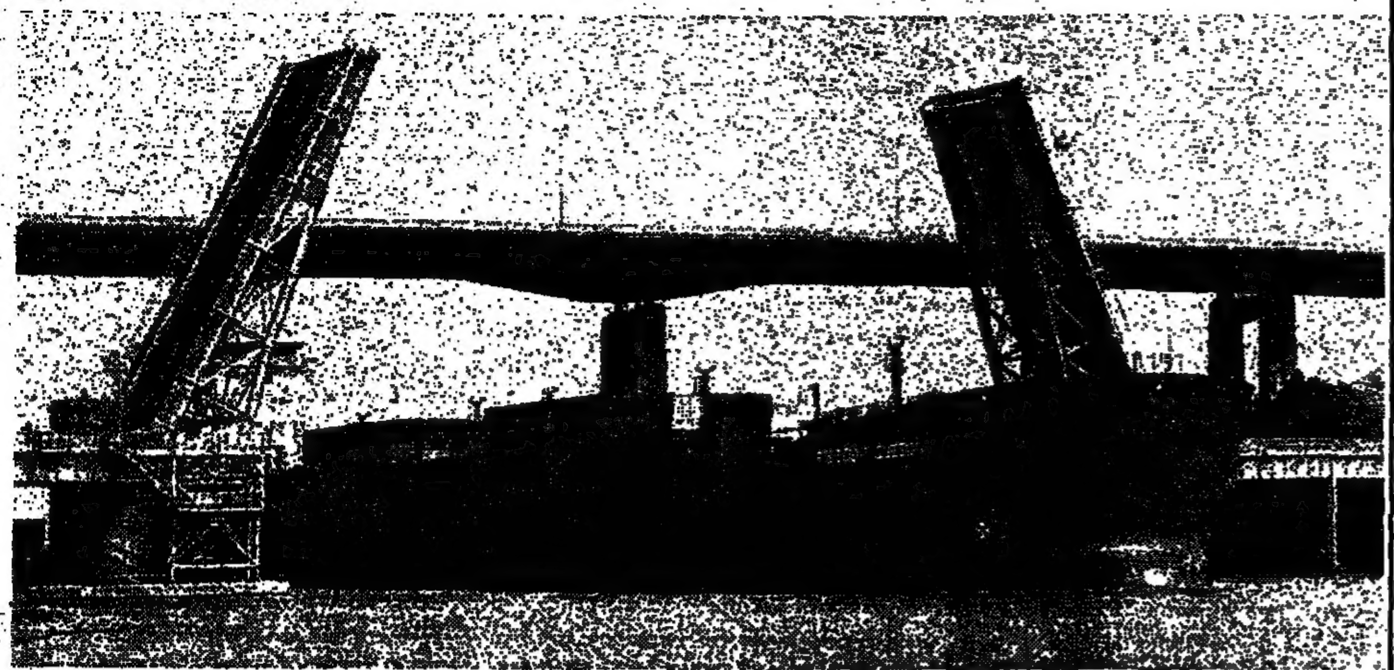
The electorate itself is divided and unsure about both policy and party. Even though there are some predictable alignments - Quebec is broadly behind free trade, Ontario against it - it remains highly uncertain how an election will precipitate those views into electoral support. Timing could well be crucial.

Given the splits in the opposition and Mr Mulroney's weakened position, the results of an election - early or late - are highly unpredictable. With the NDP very strong in Quebec and Ontario as well as the Western Provinces, they could well eat into conservative and liberal support, producing a minority liberal or conservative government.

Andrew Marshall

Overseas capital is now being attracted

Tide turns as inflows rise and barriers fall



Container ship on the Welland Canal of the St Lawrence Seaway, Ontario

THIS COULD well be a record year for foreign direct investment (FDI) in Canada. After a lean period, the combination of strong growth and a more internationalist government in Ottawa has made the country an attractive location for overseas capital.

The newly-negotiated Free Trade agreement with the US should keep it rolling in.

The investment outlook has improved immeasurably from the early 1980s. Then, stringent government restrictions imposed through the National Energy Policy and the Foreign Investment Review Agency, the government watchdog, led to foreign capital being repatriated faster than it arrived.

In 1981, gross inflows of capital amounted to C$4.8bn, a record figure, but gross outflows, concentrated in the petroleum and natural gas sector, reached a high point of C$9.2bn.

The situation has returned to normal only in the last two years. In 1986, gross inflows reached C$7.5bn, giving a net foreign direct investment figure of C$1.6bn after deducting outflows. Gross inflows for the first half of this year were C$3.985m, nearly double the figures for the same period of 1986, and outflows were only C$1.2bn against C$1.5bn.

The increase in investment since 1984 has been spread across most sectors, with manufacturing playing a proportionately larger role than it did in the 1970s.

Finance has been the most notable growth area as Canada has liberalised its securities industry - Ontario has completely deregulated its financial sector.

Large disinvestments in the petroleum and mining sectors in 1985 and 1986 made net inflows in this sector negative, but capital has started to flow back again this year.

Mr Mulroney's government can take some of the credit for turning the tide. The economy looks substantially stronger than when he arrived, and some progress has been made in tackling the fiscal deficit.

The Progressive Conservatives came into office declaring the country "open for business" again after the long years of liberal rule, and made good their promise by dismantling much of the apparatus for restricting foreign investment.

But the trend towards liberalisation had begun earlier. FIRA was at its peak in 1981-2, under arch-nationalist Herb Gray; it had become largely a rubber stamp by 1984.

As their first legislative act, the Conservative government replaced FIRA with a new agency, Investment Canada. The agency has a lower review threshold, a less harsh test for new foreign investment, and fewer powers to prevent foreign acquisitions or to impose conditions upon companies entering the country.

It also has a broader role. "Most of our resources are spent attracting investment," says Mr Paul Labbe, IC's President.

The Free Trade agreement should prove a considerable stimulus to overseas investment, he says. The country's trump card for overseas investors has always been its easy access to the US.

After January 1989, that will be guaranteed, and there effectively will be one single North American market for most products, broken down by regional distinctions rather than national trade barriers.

As its neighbour threatens to become more protectionist, Canada has bought itself guaranteed right of entry. "The back door is wide open," says Alan Rugman, Professor of Economics at Toronto University.

The agreement also provides for national treatment of US investment in Canada, and will progressively increase the threshold for review of US investment.

This is a considerable step for a country where economic nationalism has been more or less firmly entrenched since Walter Gordon held the Finance portfolio in Lester B. Pearson's 1960s government.

Though there are exceptions - energy and the cultural industries, for instance - most manufacturing sectors are now open to US investors. The Agreement also provides for greater freedom of movement across the border for business purposes, thus making trade in services considerably easier.

However, it is unlikely to herald a new era of US investment. First, as noted above, the Canadian investment regime has already been considerably liberalised in the last three years. Investment Canada has not turned down a single application since its birth in 1985.

Second, US foreign direct investment in all countries has slowed considerably in the last decade. Investment in Canada, which turned sharply negative in 1981 and 1982 and again in 1985 and 1986, has only picked up slowly from its trough.

The US is now a major recipient of investment, including significant flows from Canada. This trend is more a matter of US economics than Canadian politics.

Though the US is still by far the largest investor in the country, its share of total foreign ownership has fallen from 80 per cent in the mid-1970s to 75 per cent in 1986. Its share of gross capital inflows, which stood at 76 per cent in 1975, fell to 50 per cent in 1983, and has since stablisied around 65 per cent.

Indeed, whereas in the 1970s US companies buying amounts of Canadian capital became a burning political issue, the concern now is that the process will reverse. Workers in the branch plants of Ontario fear that as trade barriers are lifted, US manufacturers will substitute exports for investment, and take more of their capital home.

Mr Labbe says that Canada's national advantages in energy and labour costs should keep American branch plants in the country. Many now have their own specialised production runs, he argues, and it would not be cost effective to close them down to re-site production south of the border.

Alan Rugman also doubts that the process will go as far as a full-scale retreat, arguing that other benefits of FDI - principally reductions in transaction costs - will continue to stimulate investment. Sunk costs should deter removal of existing plant.

Moreover the agreement, by stimulating economic growth through trade, should give some momentum to US FDI, he says.

But both Mr Labbe and Mr Rugman see US investment declining in significance, albeit slowly. They accept that Canada must increasingly look to other countries - principally the UK and France, but also Japan and Hong Kong. These countries have all increased investment in Canada.

The first main area of concern for overseas investors is essentially economic: given that the North American market is crucial to most manufacturers, is Canada the right entry point?

Though the country has its own unique mix of assets, some of these - such as low wages and a favourable exchange rate in relation to the US - may be eroded by the long-term effects of the Free Trade agreement. But the unique access to resources and energy the country provides, as well as its geographical positioning, should ensure a steady flow of capital.

The second issue is political. After the experience of the 1970s, investors inevitably approach Canada with some caution. Many have reservations about how deep the country's new-found commitment to liberalisation of investment runs. Though Investment Canada has never turned an application down, "it's certainly not a rubber stamp process," says Mr Labbe, adding darkly that he knows of "a number of cases that have been discussed but have not come forward."

In a survey by the EMF Foundation last year, Canada rose from seventh position to sixth on a competitiveness ranking reflecting its more open policies as well as the improved economic outlook. But it is notable that the country ranked only twelfth out of 22 for "outward orientation."

The country's legacy of economic nationalism, and the fears about foreign investment, will die easily. Mr Labbe has a strong interest in the type of investor he prefers to encourage. For instance, "companies that are technologically intensive, that are developing, emerging."

As the quid pro quo for access to the US market, Canada expects to become more than a network of branch plants, warehouses and resource extraction.

One critical area of concern is the energy sector, where the Government's target is still to achieve 51 per cent domestic ownership. Though this currently stands at about 48 per cent - up from about 8 per cent at its low point - the process will be set back by Amoco's acquisition of Dome.

As British Gas found this year, Canada maintains its sensitivities about foreign acquisitions of energy companies. The company, which tried to buy a 51 per cent stake in Bow Valley, a Calgary-based oil and gas concern, found itself blocked by the Canadian government, though not formally rejected by Investment Canada.

Canadian legislation does not allow foreign companies to take over domestic energy companies unless they are in financial trouble. British Gas withdrew its bid, which may be resubmitted later on different terms.

In these circumstances, there must inevitably be some lingering doubt about how far the commitment to openness goes. Moreover, Mr Mulroney's pro-business opinions are decidedly not shared by the opposition NDP, and by only one section of the Liberals.

Electoral failure for the PCs may reverse much of the progress made in the last three years.

Andrew Marshall

Financial services

Chill felt on Bay Street

BY ANY measure 1987 has been a tumultuous year for the Canadian financial services industry.

The first stages of deregulation and aspects of the US-Canada bilateral trade deal began to expose the once cosy sector to the full force of international competition.

The heavy LDC loan exposure of the major chartered banks came home to roost, with charges related to increased loss provisions producing well over C$1bn of red ink in the Big Five's year-end results. And the spectacular October demise of the five-year-old bull stock market injected a cold dose of reality into a Bay Street flush with the proceeds of lucrative equity issues and new investment dealer millionaires.

The hope, once the transition period passes, is that a string of well-capitalised, lean and diversified players will emerge, capable of holding their own in increasingly competitive and inter-related global markets.

The worry is that in the meantime a combination of greater competition and worldwide economic uncertainty will cause the knife to cut very deep. "I suspect we will see lay-offs on Bay Street along the road underwriting has gone," one seasoned Toronto observer forecast in early November. Six weeks later, that remark is already proving all too well-founded.

In a nutshell, Canada's financial services "Little Bang" marks the end of the traditional four pillars of the domestic industry. Each of the four - banks, insurers, securities firms and so-called trust companies (quasi-banking institutions based on home mortgage and fiduciary business) - had until June 30 been either limited to or specifically barred from some types of business.

Mr Thomas Hockin, Minister of State for Finance, has been expected to publish imminently draft legislation liberalising the functions of banks, insurers and some trust companies, and limiting links between financial and commercial interests.

The initial phase of reform was concerned primarily with the securities sector. From June 30, entry into the securities business was permitted for any Canadian company - whether a financial institution or not.

To give domestic investors a head start, foreign shareholdings in full-service securities dealers are limited to 50 per cent until mid-1988. Accordingly, the lion's share of post-deregulation headlines thus far have been made by foreign and domestic banks seeking to bite the hitherto forbidden fruit of the securities business.

With Royal Bank of Canada's agreement earlier this month to purchase a 75 per cent stake in Dominion Securities, each of the Big Five Canadian banks has now taken steps to position itself in the securities market - the majority by buying into established firms. A number of foreign banks, including Deutsche Bank, Security Pacific and Banque Indosuez, have done likewise.

Toronto Stock Exchange: facing reality

Canada's six biggest banks*

	1987 net income after provision (C$m)	Before provision (C$m)	1986 net income (C$m)	Total assets (C$bn)
Royal Bank of Canada	258.7	541.3	488.9	102.2
Canadian Imperial Bank of Commerce	63.2	386.8	341.2	88.4
Bank of Montreal	352.4	412.6	353.0	84.2
Bank of Nova Scotia	312.0	380.9	336.2	71.4
Toronto Dominion Bank	53.1	528.1	402.6	54.5
National Bank	83.6	214.4	186.9	30.0

*Earnings for the year ended October 31 both before and after provisions made for Third World loan losses

One side effect of the continuing regulatory upheaval has been the outbreak of a series of disputes between federal and provincial regulators in Canada over matters which touch on both federal and provincial jurisdiction.

It is widely accepted, for example, that Ottawa has been dragging its heels on approving foreign stakes in some brokers, which were swiftly sanctioned by Ontario, in a bid to encourage the home authorities of the would-be acquiring entity in turn to open up their securities sectors to Canadian financial institutions.

In the case of the US, where the Glass-Steagall act still mandates a separation of commercial and investment banking activities, Canadian free trade negotiators have opened a chink for Canadian banks, though not full reciprocity, by securing an agreement to allow them to underwrite Canadian government securities in the US.

In return, the deal outlines two ways in which US institutions will receive more favourable treatment than other foreign firms in the Canadian market. First, US-controlled companies are guaranteed treatment "as favourable as persons of Canada" with respect to the purchase of shares in Canadian-controlled financial institutions. Second, US bank subsidiaries have been exempted from existing limitations on the assets of foreign banks in Canada.

All but one of the Big Five Canadian banks reported heavy year-end losses. This followed their compliance with a third-quarter recommendation from the superintendent of financial institutions that they lift reserves on loans to 34 troubled debtor nations to between 30 and 40 per cent of their C$24 bn exposure. The move came in response to a similar initiative by New York's Citicorp.

Toronto-Dominion was ultimately the only major Canadian bank to avoid falling into loss as a direct result of this. However, the continued buoyancy of the domestic retail banking sector did provide a degree of damage limitation virtually across-the-board.

Meanwhile, memories of the shake-out among smaller banks which occurred in 1985 and early 1986 were revived by the collapse of the C$1.3 bn Principal Savings and Trust Co. The debacle left some 32,000 disgruntled unsecured investors with estimated losses totalling C$150-200m.

While the impact of October's stock market crash on the economy at large remains hard to assess, the fall-out has quickly cast a pall over Bay Street in common with other world financial centres. Two of the oldest names in the business - Dominion Securities and Wood Gundy - have already announced austerity packages. More are confidently expected to follow.

Dominion's move was restricted to implementing an across-the-board pay cut. Wood Gundy, however, has been forced to lay off 150 of its 2,100-strong staff.

The firm, long the undisputed doyen of Toronto investment dealers, has run into heavy water due primarily to losses from the recent BP privatisation. Its shaky condition has placed something of a question mark over its previously-announced C$270m sale to First National Bank of Chicago of a 35 per cent stake in the firm.

At time of writing, First Chicago was still "trying to see if a revised transaction is in our interest."

David Owen

Profile: Allan Taylor

Baptism of fire to improve profits

WHEN IT COMES to maintaining a high public profile, Mr Allan Taylor, Royal Bank of Canada's affable chairman, is no match for either Mr Rowland Frazee, his immediate predecessor, or Mr William Mulholland of rival Bank of Montreal.

In May 1983, on becoming the bank's president, Mr Taylor was described as "low-key even within his own company." Three years later, on succeeding Mr Frazee, a magazine article designed to mark the event ran Mr Taylor's name beneath a likeness of Mr Frank Lamont, a prominent securities company executive. "That's what I call financial industry restructuring," Mr Taylor quipped at the time.

Since then, the 55-year-old native of Saskatchewan, has endured something of a baptism of fire in his bid to improve the static post-1983 profit record of Canada's largest financial institution.

Specific retrenchment moves have included a spate of lay-offs among head office and regional headquarters staff, the closure or restructuring of several overseas operations, the withdrawal of Orion Royal (the bank's London merchant banking subsidiary) from the Eurobond market and the addition of C$1.4 bn to its general provision for Third World loan losses, resulting in a swingeing C$800m charge against 1987 earnings.

But now the down-to-earth and unflappable career banker, whose accent still betrays his prairie roots, is quietly confident that the bitterest pills have finally been swallowed. "We feel quite comfortable that we don't have some more nasty problems ahead of us," he says. "We can look for better earnings as a result."

Various factors underlie Mr Taylor's optimism, chief among them the improvement in the bank's loan portfolio.

This has been achieved on the one hand by dint of large write-offs, particularly in the energy sector, and on the other by a steady increase in comparatively low-loss consumer credit as a proportion of total assets.

Higher oil prices have clearly also helped. In addition, the credit function has again been centralised as part of a drive to attain "a full understanding of credit risk management."

Meanwhile Mr Taylor, who joined the Royal as a junior clerk in 1949, has deliberately moved to re-position the bank both to withstand intensifying competition in its core (and highly lucrative) domestic retail market and to take advantage of the opportunities afforded by the continuing deregulation of financial services.

Allan Taylor: down-to-earth and unflappable career banker

Central to these plans is the Royal's newly-acquired 75 per cent controlling interest in Dominion Securities, Canada's leading investment dealer, bought in a cash-and-share transaction valued at C$385m. Future thrusts into insurance, investment management and information services are also under study.

Among other benefits, Mr Taylor expects the Dominion deal to provide a fillip for the bank's London-based investment banking interests - Orion Royal and the Kitcat and Aitken brokerage firm - by providing a solid Canadian base for their activities. "Trying to be involved in something that is so different and 3,000 miles away is not the easiest trick in the world," he says.

On the international front, assets are being re-focused to concentrate on those areas perceived to offer the best potential returns. The Bahamas, Barbados and Australia currently fall into this category.

"We are not going to be less of an international bank," says Mr Taylor, once a stalwart of the Royal's international division. "But we are going to be more of an international bank that's selective. And if people describe us as being a niche player in the international markets, I don't mind that."

David Owen

The country's defence plan contains a multitude of high-spending proposals

Battle over nuclear sub defence

"IT'S A wish list." That is the verdict of at least one defence analyst on the White Paper which Canada's suave Defence Minister, Perrin Beatty, produced this year. It contains a multitude of high-spending capital projects, but they are not yet backed up by hard cash.

As Christmas approaches, Mr Beatty will not be the only one hoping fervently that those wishes will turn into reality. The White Paper is widely acknowledged to be a vital step in making Canada's defence credible after two decades of decay. At 101 Colonel By Drive, the headquarters of the armed forces, the first review of Canada's defence priorities in 16 years was greeted with little short of euphoria.

Canada has long been the poor relation of Nato. In the 1970s, spending on capital equipment had dropped below acceptable levels, and the role of the forces in Canadian foreign policy was downgraded.

Though the last Liberal government began the process of reversing the process, the country remains the fourth lowest spender in Nato after Iceland, Denmark and Luxembourg. A rethink of capabilities and commitments was long overdue.

Having reviewed foreign policy in 1985, the Government turned this year to defence. The Department of National Defence's White Paper cuts the commitment to reinforce Norway in time of war, but strengthens the bases in Germany.

The reserves would be increased and armed with more modern weapons, a long overdue step. The forces would be re-equipped with new helicopters, ships, and for the first time, nuclear submarines.

The defence industry has more than a passing interest in Mr Beatty's predicament. The Paper contains a veritable feast of juicy contracts aimed at ending the "rustout" of Canadian equipment, and both overseas and domestic contractors are eagerly anticipating a share.

The bulk of the spending goes on re-equipping Canada's navy. By the turn of the century, in conjunction with the other programmes under way, the White Paper would provide 12 (relatively new) anti-submarine warfare frigates, four modernised Tribal Class destroyers, and perhaps four of 10 planned nuclear submarines.

This compares very favourably with its current complement - 20 anti-submarine destroyers and four diesel-electric subs.

Decisions on spending, and the battles over which province is given the lion's share of the construction contracts, have already begun. This year's top fiscal priority is six more anti-submarine frigates, at a total cost of C$5bn, to add to six already constructed. The Cabinet is currently debating both funding and contracts.

St John Shipbuilding of New Brunswick looks set to be prime contractor, despite strong pressure from a rival in Quebec, Marine Industries Ltd.

But the most lucrative, and also the most controversial, items on Mr Beatty's shopping list, are the 10 nuclear submarines. They would carry out Canada's three main maritime roles - anti-submarine warfare, surveillance and convoy patrol - but far more effectively than its current submarines. For the first time the Navy would also be capable of operating in the Arctic as well as the Pacific and Atlantic.

The order, if it emerges from the fiscal scrum in Ottawa, has a symbolic significance way beyond its $10-12bn cost. It would be the first time that nuclear submarine technology has ever been sold from one country to another. It would also be the first time since the First World War that any Canadian company has built a submarine.

In the running to provide the technology are Vickers Shipbuilding & Engineering of the UK, which produces the top-of-the-line Trafalgar class, and the cheaper but less sophisticated French Rubis/Amethyste, produced by Direction des Constructions Navales. Five companies or groups are competing for the construction contract, including Saint John Shipbuilding and a Montreal syndicate headed by MIL.

The Canadian Navy had been the poor relation of the forces for some years, and few would quarrel with the need to re-equip it. But the way in which Mr Beatty has chosen to do this is open to argument. Nuclear submarines, some defence analysts contend, are a highly expensive and inappropriate way to achieve Canada's maritime goals.

They are certainly expensive. The submarines, estimated by DND originally at C$7-8bn, are likely to finally cost nearer C$12bn, and possibly even more depending on whether they are based in existing facilities, or require new construction. Financing this expenditure - not to mention the other planned high-cost capital programmes - is Mr Beatty's most pressing problem.

Canadian strategic analysts also contend that the submarines are inappropriate. They are designed to attack rather than deter, they say, and are not consistent with Canada's role in Nato.

Nor is it clear how the submarines will operate in relation to existing US forces. The Pentagon is known to be uncomfortable at the idea of sharing Arctic waters with the Canadians, particularly in the North-West Passage where sovereignty is in dispute.

Ultimately, it is likely to be the fiscal arithmetic rather than strategic calculations that causes Mr Beatty to lose sleep. The spending programmes stand or fall on a formula that guarantees minimum annual budget increases of 2 per cent, though the the re-equipment plan assumes real spending increases of 5 per cent, or more than C$500m per annum.

Spending for large individual projects over and above the 2 per cent level would be determined by the Cabinet on a case-by-case basis, thus effectively giving them a veto on any capital programme. This was agreed after intense Cabinet opposition - originating from both the Department of External Affairs and the Treasury - to the Paper's ambitious plans.

Even in the first year of the White Paper, with optimistic economic forecasts and a broadly sympathetic administration, there have been problems, and the Cabinet has not yet decided on spending levels. If Finance Minister Wilson gets his way, Mr Beatty will get no more than 2 per cent.

The Cabinet is expected to announce sometime within the next few weeks whether or not the frigate programme can go ahead, and which other programmes must be cut back to pay for it. It is likely that some of the more marginal programmes - modernisation of weapons for the reserves, for instance - will be cut or delayed.

Wrangles over spending beyond the 2 per cent level are likely to be a persistent thorn in the side of defence planners. If they had hoped to rebuild confidence in Canadian capabilities by building in steady rises in expenditure, then the outcome leaves a great deal to be desired.

Unpredictability and politicisation - especially where competing provincial claims to federal defence funds are at stake - look set to be institutionalised.

The PCs had also hoped to make political capital out of their pro-defence stance, in contrast with both the anti-Nato NDP and the Liberals, who began the rundown of the forces in the early 1970s.

If the government cannot make good on its commitments then the claims made in the White Paper will become political liabilities rather than assets.

In the long term, the Paper's preference for high spending projects with a weak fiscal basis could be dangerous. Even as it stands, analysts in Europe have criticised the Paper for its lack of balance. They contend that it over-emphasises homeland defence and "sovereignty" at the expense of the commitment to Nato and Europe.

The US is also known to be concerned at the acquisition of the nuclear submarines, which some Pentagon officials consider inappropriate to Canada's needs.

If the Paper is eroded by Cabinet vetoes, the imbalances could become worse. One possible result of the 2 per cent formula, says Dan Hayward of the Canadian Centre for Arms Control and Disarmament, is a "rump fleet."

This would involve DND curtailing the submarine programme at an early stage and cutting back on its expansion in other areas. The result would be that Canada would be unable to satisfy even its existing defence obligations.

Andrew Marshall

Troop-carrying aircraft used by the Armed Forces in Europe

Skiing in Alberta, venue for the Winter Olympics

Calgary Winter Olympics

Preparations under way for record Games

CALGARIANS PRIDE themselves on being rugged individuals. Each year they put on the Calgary Stampede - "The Greatest Outdoor Show On Earth." In February, Canada's fifth largest city will host the greatest winter show - the 1988 Olympic Winter Games.

Calgarians like to boast that theirs is the first Canadian city to host a Winter Olympics (Montreal hosted the Summer Games in 1976) and they claim that these will be "the best-ever ames."

The event takes place from February 13-28. A total of 1.6m visitors are expected to watch the action firsthand while another 1.6bn people worldwide tune in on TV.

Already 2,800 athletes and officials from 55 countries have said they will attend the Games - a record number of nations at six more than competed in Sarajevo, Yugoslavia in 1984.

The drawn-out schedule of 16 days stretched over three weekends for the 1988 Winter Olympics was conceived with lengthy TV coverage (550 hours) in mind. Previous Games lasted two weeks or less.

The American ABC network paid a whopping US$309m for exclusive rights to beam the event worldwide, the highest amount paid for television coverage of any Olympics and US$84m more than the cost for the 1984 Summer Games in Los Angeles. The $309m virtually guaranteed that the Calgary Olympics would be profitable.

The local organising committee, or Olympiques Calgary Olympics (OCO'88) is using the Los Angeles event as a model of how to run a successful and profitable Olympics. OCO'88 aggressively courted businesses and establised three categories of participation - sponsors, suppliers and licensees.

Twenty sponsors have paid a minimum of C$2m each for advertising privileges, while 40 suppliers each paid C$500,000, and 41 licencees guaranteed 10 per cent of their projected wholesale revenues for the Games.

The stretched 16-day schedule was conceived with lengthy worldwide TV coverage in mind

OCO'88 will bring in C$87m in revenue from the three areas of corporate support, and expects C$42m from ticket sales and C$32m from a post-Games sale of equipment.

Total revenues are expected to be C$556m while expenditures should be C$516m, leaving a C$40m surplus to be split between the Montreal-based Canadian Olympic Association and the Calgary Olympic Development Association, both of which are charged with fostering sports development in Canada.

To make a profit is a vital part of the exercise since the Montreal Olympics ran up a C$1bn deficit.

The construction and expansion of ten Olympic venues is costing C$327.5m. Enlargement of McMahon Stadium to seat 59,400 people for the opening and closing ceremonies has cost C$16.3m; the Olympic Saddledome, site of hockey and figure skating, cost C$97.7m; the Olympic speed skating oval, at the University of Calgary, cost C$39.9m; Canada Olympic Park, on the western outskirts of the city and site of the ski jumping and bobsleigh events, has cost C$70m.

Nakiska at Mount Allan, a 60-minute drive west of Calgary where the alpine skiing events take place, was C$27.1m. Cross-country skiing and biathlon (a combination of rifle marksmanship and cross-country skiing) will be held at the C$17.3m Canmore Nordic Centre, a short drive north-west of Nakiska.

The two athletes' villages, Calgary and Canmore, cost C$51.5m and C$3.8m. The other C$3.9m was spent expanding and renovating existing arenas in Calgary.

As for government contributions, Ottawa put in C$200m, the province has given C$129m and the City of Calgary added C$466m for capital projects. In addition, the three levels of government chipped in C$52m towards general and administrative expenses.

The XV Olympic Winter Games will be the most expensive in history, but they are also expected to be the largest as well as the best attended and watched. What is more, according to a federal government study, these Olympics will pump an estimated C$1.2 bn into the Canadian economy.

Alister Thomas

Immigration

Cool welcome for refugees as Ottawa seeks curbs

WHEN 173 Indian men and one Turkish woman waded ashore near the western tip of Nova Scotia last July claiming refugee status, they were greeted with tea and sympathy by local residents more accustomed to finding driftwood washed up on the beach.

The welcome was decidedly cooler in Ottawa, however, where Parliament was reconvened a month early for an emergency session to debate stiffer immigration legislation.

The proposed measures, now enshrined in two controversial Bills, aim primarily to deter bogus refugees and streamline the process of determining refugee status.

The prime factor that has persuaded the Canadian government that a reappraisal of its traditional hospitality towards refugees is necessary (in line with a trend which has become apparent in many other Western countries) is quite simply the surge in new arrivals with dubious credentials. In 1980 only 1,600 migrants requested refugee status in Canada; by this year the corresponding figure will be nearer 30,000.

This has put the system under increasing strain. In the words of Mr Benoit Bouchard, Canada's Minister of Employment and Immigration: "The existing system was never designed to deal with the growing number of claims or with the large number of false claims to refugee status.

"It is bogged down and can no longer respond effectively to genuine refugees in need of Canada's protection."

But the refugee problem is just one part of the overall immigration equation. And while Ottawa mulls over stiffer measures towards relatively unmonied refugees, it continues to roll out the red carpet for wealthy business immigrants and other "legitimate" settlers.

Stiffer legislation has been made necessary by a surge of arrivals with dubious credentials

In 1987 the Government planned to admit between 115,000 and 125,000 immigrants. This target range will increase to 125-135,000 in 1988 in line with the Government's position that an upward movement in immigration levels is desirable and necessary for social, economic and demographic reasons. The country is, after all, inhabited by a sparsely-scattered and aging population - and is afflicted by a steadily-declining birthrate.

"Family class" immigrants represent the largest single component of the 1987 target ranges in line with government statements that family reunification remains the main goal of Canada's immigration policy.

The next biggest category for newcomers is the so-called "independent" class - those with a job skill in one of 110 areas where there is a supply shortage. The third category is refugees, followed by business immigrants.

For selection purposes, the Immigration Act sets out a points system under which which immigrants must meet certain standards in an assessment based on nine factors. These include education and training, knowledge of English and French, and occupational skills.

There are many who feel that the Government should open the immigration door wider, pointing out that in the peak year of 1913, as many as 401,000 immigrants were admitted to Canada.

However, as a Gallup poll conducted in April indicated, such a policy would be unpopular with Canadians. According to the poll, no fewer than 83 per cent of Canadians favour reducing immigration levels or leaving them as they are. A mere 13 per cent support raising them.

There are some fairly clear-cut explanations for such an attitude. For one thing, unemployment remains on the high side at approximately 9 per cent.

And with an increasing tendency among forecasters to project an impending downturn in Canada's impressive recent record of economic growth, there is concern that it may prove difficult to maintain the living standards of even the current 25m population at today's enviably high level.

Equally strong in a country whose citizens take pride in its reputation as an exceptionally tolerant and law abiding society are the fears of importing terrorism, crime, and increased racial tension.

The immigrant cause has not been helped by the fact that Sikh extremists are considered responsible for the world's worst terrorist air attack - the explosion in June 1985 aboard an Air India jet flying from Toronto to Bombay which killed 329 people.

More recently, in December 1986, two Montreal Sikhs were convicted of conspiring to bring down another airliner. And in February, four Vancouver-based men were convicted of attempting to murder a Punjabi Cabinet minister on vacation.

More positive publicity has been gleaned, however, by the stream of Hong Kong residents with the "1997 jitters" who have recently been investing in Canada at the rate of an estimated C$200m a month, lured partly by the bait of the Immigration Department's so-called "entrepreneur programme."

This grants permanent residency to individuals whose net worth is more than C$500,000 - provided that they indicate an intention to invest in Canada.

Karen Zagor

Indigenous peoples

Patient moves towards a recognised homeland

AT RANKIN INLET, on the far reaches of Hudson Bay where the ice desert of the Keewatin territory slides down into the Arctic waters, an historic meeting took place two weeks ago.

The elders of the Inuit, the preferred name of the people Europeans still call the Eskimo, met to discuss the future of their land.

With them sat their old adversaries, the leaders of the Dene Nation of Indians from the south-west below the treeline. With them also were leaders of the Metis, the descendents of the Indian people who intermarried with the Scots and French fur traders.

The 17,000 Inuit wish to create a new territory over their traditional lands which cover 2.23m square kilometres - a region greater in size than the combined area of the United Kingdom, France, Belgium, Luxembourg, East and West Germany, the Netherlands, Switzerland, Austria, Denmark, Finland Hungary, Czechoslovakia, Bulgaria, Albania and Iceland.

But colonial history has lumped the Inuit into a partnership with their Indian cousins - with whom they share neither linguistic nor cultural heritage - in the Northwest Territories. This vast sweep of Ottawa-administered land covers more than one third of Canada, the second largest country in the world.

For four years the Inuit have been trying to create Nunavut, which means "Our Land" in the Inuktitut language, but have

The most immediate has been the nervousness of the 10,000-strong Dene Nation and Metis of the western Northwest Territories. These peoples would be a political minority to 20,000 whites living in the frontier settlements of the Mackenzie River valley if the territory was split.

The partnership with the Inuit gives the native peoples a one-seat majority over whites in the 24-seat legislature in the territory's capital, Yellowknife.

In theory, the Dene would also like their own territory in the western Arctic, but they want a Fijian-style constitution so they are guaranteed political sovereignty over the white population.

Talks between the Inuit and Indians on where to set the boundary of the new territories collapsed earlier this year. As well as Dene apprehension there is an ancient question of hunting lands. The Dene live below the treeline, but move up on to the Inuit territory of the tundra in the autumn to hunt the caribou.

But soon after the Pope's visit to Fort Simpson in September - it is to be renamed Liidii Koe in his honour - the Dene leaders decided to try negotiating with the Inuit again.

The presence of their leaders and those of the Metis at the Rankin Inlet meeting was a signal of this willingness. There is now quiet optimism that it will be possible to hold a referendum on the division in March

Another problem for the Inuit is the lack of a real economic base. When, in 1984, the European Economic Community bowed to pressure from animal rights groups and banned the import of the fur of seal pups from the ice floes of Newfoundland, the result was devastation of the Inuit communities 3,000 kilometres to the north.

These people never hunted seal pups, but they did depend on selling the skins of adult seals to the European market and the European ban killed the market for all seal pelts.

All Canada's 1.5m native peoples have watched with growing alarm as Europe responded sympathetically to anti-hunting and trapping campaigns.

They fear the European campaigners will now move against the market in fur from wild animals such as beaver, muskrat, racoon, lynx and mink. This trade is the only independent economy available to very many native people

A further pressure on the creation of Nunavut is the refusal by the federal government and the provinces to give native people the constitutionally-entrenched right to self-government.

A national summit meeting in March with Mr Mulroney, the Prime Minister, and leaders of the ten provincial governments ended without agreement. As the "First Nations" of the country, the Indians and Inuit wanted their reservations and communities to have equal political rights with the provinces. Ottawa and the provinces refused.

The creation of Nunavut with its inbuilt Inuit majority would be something of a political beacon to all Canada's native peoples. How soon Nunavut might develop into a province with all the legal powers that entails is another question.

The Meech Lake accord this summer by which Quebec signed the 1982 constitution changed the rules by which new provinces can be created. It will now require unanimity among Ottawa and the provinces, and people in the territories fear this means it will be almost impossible for them to achieve provincial status.

In the last 20 years Ottawa has handed over considerable administrative power to the legislatures of the Northwest Territories and its westward neighbour, the Yukon. But the Northwest Territories in particular have little in the way of a tax base and are heavily dependent on Ottawa's contribution to their nearly C$500m annual budget.

The Yukon is seen as a much more credible candidate for provincial status. With only 482,000 sq kilometres of land it is a more manageable size and it has a reasonably strong economy based on mining.

Of its 23,000 people only about 6,000 are Indian and the legislature in Whitehorse engages in the kind of partisan politics that Ottawa and the provinces understand.

The Yellowknife legislature, by contrast, has adopted a native style of government whereby everything is done by consensus

Jonathan Manthorpe

Canada's only predominantly French-speaking province has learned some difficult lessons

Tests for Quebec's self-confidence

QUEBEC'S new-found energy and self-confidence has undergone some severe testing in recent months

First, Quebecers had to weather a summer of political debate on last spring's Meech Lake constitutional accord.

Though the details were difficult to fathom, the symbolism was important: Quebec, Canada's only predominantly French-speaking province, could finally be part of the 1982 Canadian Constitution with dignity.

Then the October stock market crash massacred a new generation of Quebec equity investors and raised fears for the health of the economy.

Finally, on November 1, the sudden death of Mr Rene Levesque, founder and architect of the separatist Parti Quebecois and premier from 1976 to 1985, prompted an extraordinary outpouring of public feeling.

Hardly was Mr Levesque buried when a group of hardline separatists asked for the head of his successor, Mr Pierre Marc Johnson, who promptly resigned saying he could not bridge the gap between hardliners and moderates.

Mr Johnson, a moderate who invented the compromise goal of "national affirmation", had succeeded Mr Levesque in 1985 after the latter was forced to resign by internal party squabbling.

The PQ, which lost the famous 1980 referendum on the constitution, is split down the middle between hardliners who believe it must retain a clear goal of independence, and moderates who maintain that "sovereignty" must be soft-pedalled for electoral reasons.

The quarrel within the PQ began to come out into the open before Mr Levesque's death, when the former Finance Minister Mr Jacques Parizeau and several other former ministers in Mr Levesque's last Cabinet began to snipe at Mr Johnson's "national affirmation" goals.

During the summer the PQ's national convention had overwhelmingly backed Mr Johnson, son of former premier Mr Daniel Johnson, and his policy of moderation, and despite his lacklustre performance as a debater in the National Assembly, the polls persistently showed him high in public esteem.

The hard-liners insisted that the PQ coalition could only survive as a political force if it went back to independence or political sovereignty in economic association with the rest of Canada as its goal.

Otherwise it would continue to lose members to the Quebec wing of the federal New Democratic Party, now going through contortions to show that it is pro-Quebec autonomy.

The attacks continued after Mr Levesque's death, and it became clear that Mr Johnson could not hold his parliamentary group together, nor the broader split among the party faithful.

A lawyer and medical doctor by training, Mr Johnson will continue to exercise influence through the private sector. His brother is Industry Minister in the Bourassa Cabinet.

The hard-liners look to Mr Parizeau as party saviour. He has always believed in the ultimate political independence of Quebec, but he is first and foremost a pragmatist.

Quebec city, the essence of French-speaking Canada

True to form, Mr Parizeau has heard the call clearly, but is in no hurry to accede. Despite his immense prestige, he is not sure he can hold the party together either.

The province's Premier, Mr Robert Bourassa, who won a landslide 99 out of 122 seats in the December 1985 election, has sought meanwhile to implement his three-pronged platform comprising rapprochement with Ottawa and the other provinces after the PQ's quarrel over the constitution with Prime Minister Pierre Trudeau, more efficient government and more economic development.

Suddenly, it seemed, Quebecers had had enough of big government and high taxation under the guise of "social democracy" and were only too eager to embrace the cause of the private sector, entrepreneurship and self-reliance.

The PQ's language legislation to further the use of French in multi-cultural Montreal was generally seen as sufficient and the Francophones appeared to feel secure and confident about the future, eager to be part of the North American mainstream.

The Liberals set about putting the province's finances into better shape and ease the tax load to nearer Ontario levels. The economy prospered as forest products, metals and other commodity prices picked up and exports did well in booming US markets.

Quebec has been growing at between 3 and 4 per cent a year in real terms - not as fast as Ontario but above the national average. Unemployment reached a staggering 15 per cent at the height of the 1982-83 recession, but has since dropped to about 10.5 per cent.

Mr Bourassa, in the second year of his term, wanted the Meech Lake accord as much as Prime Minister Brian Mulroney in Ottawa, and he has had little difficulty in persuading Francophone Quebecers that the province's new status as a "distinct society" is ample compensation for having to share its traditional veto power over constitutional change with the other nine provinces.

The October 19 international stock market meltdown was a severe shock for the new Francophone middle class in Quebec, now in full control of the Montreal economy. Since 1982, the number of Francophones in Quebec owning stock has doubled to about 12 per cent - lower than Ontario but showing a remarkable shift away from the traditional haven of bonds.

It was Mr Parizeau who as PQ Finance Minister in 1979 installed a specific tax shelter to ease the heavy tax load on the middle class and stem the flight of capital from Quebec after passage of Bill 101, the language law designed to ensure the primacy of French in business and industry.

A Quebec taxpayer could write off up to 150 per cent of the cost of an investment (within certain limits) in a Quebec-based company from his provincial income tax as long as he held the stock for a minimum of two years.

The potential was not widely realised until the recession of 1982-83, when smaller Quebec companies were in dire need of new equity capital for the recovery.

Soon a flood of new equity issues hit the market, bolstering the underwriting departments of Quebec's investment houses and adding significantly to the Montreal exchange's stock trading volume.

Up to this October, between C$3 bn and C$4 bn of new equity was raised for Quebec-based companies from Quebec stock savings plan tax shelter issues, even though the benefits were reduced in later years. Other provinces have copied the system.

However, since October 19, QSSP stocks have fallen on average between 35 and 40 per cent more than the average for all the Canadian equity market. Thousands of new Quebec investors have been singed badly, and the investment houses may now have to occupy themselves creating mergers among the scores of smaller companies which have gone public in the past five years.

Not surprisingly, brokers and investors are calling on the government to "do something" - but Mr Bourassa has wisely exercised caution.

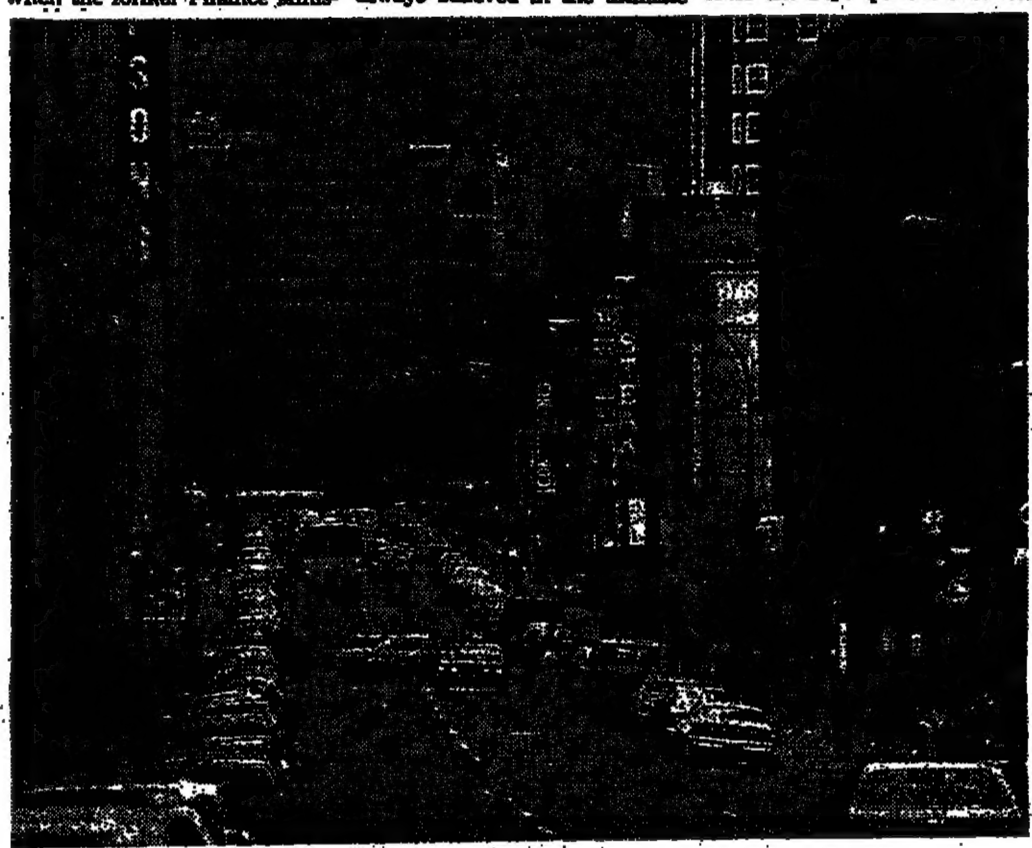
Anglophones represent only 20 to 25 per cent of Quebec's 6.5m population, and the Government continues to make strenuous efforts to channel immigration towards the Francophone sector.

But while Quebec's extremely low birth rate is creating fears of decline among Francophones, the new focus on the troubles of the PQ is raising Anglophone concerns about a possible resurgence of independentist feeling.

However, bilingualism in Montreal, especially among the Anglophones who remained after the exodus of 1976-79, has made real progress. The issue of bilingual signs and several other controversial clauses in Bill 101 is still before the Supreme Court of Canada, but Francophones can now work in their own language almost everywhere in Montreal.

Premier Bourassa's priority must be the economy and closer trade links with the US as the North American recovery runs into its sixth year. All Quebecers are worried by the prospect of a downturn and a return to rising unemployment.

Robert Gibbens



Montreal - business heart of the "distinct society."

Ontario

Robust performance brings criticisms

A MUTUAL antipathy for Ontario, it is often said, is the strongest force binding the rest of Canada together.

If it holds true at all, this remark holds true at times like the present when Ontario's robust economic performance is leaving the sluggish to respectable growth in less affluent provinces (barring Quebec) lagging in its wake.

Ontario's gross domestic product is widely expected to increase by about 3.5 per cent in 1987, compared with 3 per cent or so in the country as a whole. Unemployment - at a projected year-end level of 6.4 per cent - is the lowest in Canada.

Retail sales rose a brisk 9.6 per cent in the first five months, against a national average of 8.2 per cent for the same period.

But there is a stark difference between performance in the comparatively disadvantaged north of the province and that in the industrialised south.

Unemployment in northern Ontario (a phrase which many Torontonians interpret to mean all points north of the weekend cottage country around Lake Simcoe) is running at about 11 per cent, compared with 4.4 per cent in Toronto. Retail sales in the north grew by just 6.5 per cent in the first five months and GDP growth is forecast at a pedestrian 2 per cent for 1987 as a whole.

Moreover, economic storm clouds are looming over even the prosperous south, after a boom which powered Canada in 1986 to the fastest output growth of any leading industrial country, according to the OECD.

The October stock market collapse, though not interpreted as a precursor of a 1920s-style industrial crash, shook Toronto's buoyant Bay Street financial district at a time when it was still coming to terms with the consequences of the summer financial services industry deregulation.

Post-crash economic projections have been decidedly gloomy in tone, none more so than that released by the Bank of Montreal.

"The outlook for the Ontario economy in 1988," the bank maintains, "is much less promising as a result of recent stock market developments." Growth in the province's economy, according to bank forecasters, will be "flat or even decline" on a fourth-quarter over fourth-quarter basis in 1988.

Toronto's incredible construction boom is peaking, demand for new homes wanes in the wake of high prices, reduced migration from less fortunate parts of the country and (until recently) rising interest rates.

Meanwhile, the crucial auto industry, which directly contributes close to one-fifth of the province's industrial output, is confronted by looming over-capacity and sluggish consumer demand - factors which were perhaps uppermost in the minds of union leaders who placed pension indexation at the top of their list of demands in negotiating new labour contracts this autumn with the Big Three North American carmakers.

Unemployment at a projected year-end 6.4 per cent is the lowest in Canada

Royal Bank of Canada blames "sharply lower sales in the dominant transportation equipment industry" for the "very weak" performance of the Ontario manufacturing sector so far this year.

Finally, the less efficient Ontario manufacturers, together with the province's agricultural and winemaking sectors, face a severe jolt if Mr Mulroney's proposed US-Canada free trade deal succeeds in staying the course.

However, the province's extensive mining interests should benefit from the deal, while it remains to be seen whether the pact's auto-related proposals will help stave off the problems which otherwise beckon. In all, the province accounts for approximately half of the country's exports to the US.

On a political level, the trade pact has placed Ontario's increasingly self-assured Liberal premier, Mr David Peterson, in an extremely delicate position.

Mr Peterson was re-elected by a landslide in September in a contest which reduced the once omnipotent Tories, who ruled the province unbroken for 42 years until 1985, to a rump of just 16 seats in the provincial legislature.

The result was widely interpreted as giving Mr Peterson a mandate to pursue his reservations regarding the likely contents of any free trade deal (should one emerge).

But his increasingly vociferous opposition to the Mulroney agreement - in line with the stance adopted by the federal Liberal party - has left Mr Peterson vulnerable to attacks both from the powerful Ontario business lobby - most of which is strongly in favour of the deal - and the provinces, which are tempted to view Ontario's opposition as yet another attempt by Canada's "have" province to sabotage a package which they feel would benefit the "have nots."

Resentment of Mr Peterson's criticisms has been particularly pronounced in resource-rich western provinces like Alberta, where memories of Pierre Trudeau's now essentially dismantled National Energy Programme - which kept Canadian energy prices artificially low following the oil shocks of the 1970s to the benefit of the more industrialised provinces - still rankles.

One especially unfortunate remark, made by Ontario Industry Minister, Mr Monte Kwinter (for which he later apologised) provoked a torrent of indignation from elsewhere in the country. "If it's a bad deal for Ontario," Mr Kwinter said of the bilateral trade pact, "by extension, it's a bad deal for Canada."

The comment elicited a furious response from Mr Grant Devine, the Saskatchewan premier, who said that such an attitude "makes people roll over in their graves."

If it does nothing else, the increasing intensity of the free trade debate, coupled with the strong likelihood of slower growth in the province next year, will probably end the extended political honeymoon which the silver-haired and sartorially elegant Mr Peterson has enjoyed since his original election in 1985.

The way in which he handles the two-pronged challenge could well determine whether or not, as many have suggested, this wily politician has a future on the national political stage.

David Owen

The western provinces are struggling to achieve real growth

Staunch feelings on the major issues

WHEN TIMES are tough, the four provinces of western Canada - Manitoba, Saskatchewan, *Alberta and British Columbia* - traditionally rail against a single scapegoat - "the East."

By this they mean not the generally disadvantaged provinces of Atlantic Canada, but the "fat cats" just beyond the Manitoba border in Ontario and Quebec.

With times at present fair to middling, western voices are again being raised in envy at the sustained boom in Canada's two most powerful and populous provinces.

While real GDP growth of between 3 and 4 per cent is this year *being forecast in both* Ontario and Quebec, the four western provinces will do well to exceed a 2 per cent increment.

Recent projections made by the Ottawa *forecasting agency*, Informetrica, indicate that in Saskatchewan, which has been especially hard hit by depressed grain prices, real GDP in 1987 will actually fall.

The west's task in catching up with the fast pace set by its comparatively wealthy neighbours is made doubly difficult by the fiscal policy which strong central Canadian growth almost inevitably engenders.

High interest rates which serve to reduce inflationary pressure in the most buoyant provincial *economies often tend to stifle* much-needed growth elsewhere.

In this context, Ontario premier David Peterson's increasingly clear-cut opposition to *Brian Mulroney's US-Canada free* trade pact has served to bring the west's already rising resentment closer to fever pitch.

"I am warning those who would damage Alberta's future by taking positions against free trade that we will never forget it," Mr Don Getty, Alberta's Conservative premier, said recently.

Not only are western provinces itching to capitalise on tariff-free access to the vast American market for their own primarily resource-based producers, they expect to import in return cheap American food and manufactured goods to the direct benefit of all consumers.

Indeed, Ottawa's traditional reliance on tariff and non-tariff barriers to regulate trade is seen as little more than a means of protecting inefficient Ontario manufacturers by many westerners still smarting from the interventionist Trudeau National Energy Programme.

Generally speaking, the further west one goes, the stronger support for the bilateral trade deal becomes.

Certainly, Mr Bill vander Zalm, Social Credit Party premier of the Pacific coast province of British Columbia and an avid admirer of Mrs Margaret Thatcher, the British Prime Minister, *can scarcely contain his* enthusiasm. Mr vander Zalm, whose policies include a sweeping privatisation programme of government services and assets, has variously described the agreement as "extremely important" and "fantastic."

They are itching to capitalise on tariff-free access to the vast American market

Blessed with a C$9 bn per annum forest products industry, British Columbia was the province worst hit by last year's serious altercations with the US over, first, cedar and then softwood lumber.

In the first case, a 35 per cent *duty against Canadian shakes* and shingles exports was duly imposed.

In the second, Ottawa ultimately agreed to levy a 15 per cent *tax on domestic producers* as an alternative to suffering a US-imposed duty of similar magnitude. Until 1986, about 80 per cent of Canadian forest product exports to the US were duty-free.

As a result of these setbacks, the possible consequences of not securing a trade deal with the US are perhaps more fully appreciated in British Columbia than elsewhere in the country.

Also solidly in favour of the deal is the Conservative phalanx of Mr Getty's Alberta and Mr Grant Devine's Saskatchewan.

Alberta (Canada's Texas) has emerged as a strong champion of the continental energy policy presaged in the agreement. This, it believes, would preclude any resurrection of Trudeau-style energy interventionism.

The province is just beginning to regain its jaunty self-confidence after the renewed slump brought on by last year's precipitous drop in oil prices. This is due primarily to tax and royalty cuts and the upturn in the oil price, as well as the emergence of a stronger, more diversified economy.

In a region which takes its sport extremely seriously, the recent successes of Edmonton's Oilers ice-hockey and Eskimos Canadian football clubs have also contributed. So, of course, has the prospect of the Calgary Winter Olympics in February.

Saskatchewan, like British Columbia, had a sharp taste of what it is like to be on the wrong end of a US countervail suit earlier this year when a Commerce Department preliminary ruling proposed that duties of up to 85.2 per cent should be imposed against the province's potash producers.

The heavily grain-dependent economy is currently the most sluggish of all the provinces - a *factor* which, coupled with the harsh medicine of tax increases to cut a fast-rising provincial deficit, has caused premier Devine's *standing* to plummet in *recent opinion polls*.

Manitoba, controlled by Mr Howard Pawley's left-of-centre New Democrats, is the only west Canadian dissenter on the trade agreement. In Mr Pawley's view, Mr Mulroney has "cut an incredibly bad deal" with the US - a deal which, he feels, will force Canada to be "tied to the economic apron strings" of its powerful southern neighbour.

However, Manitobans would certainly be disappointed to see protectionist fervour south of the border making further inroads. The province, which boasts vast hydro-electric resources, has high hopes of lucrative electricity sales south of the 49th Parallel from the huge C$1.7 bn Limestone generating station when it is completed in 1992.

While Manitoba, like Saskatchewan, has been hit by the slump in grain prices, its more diversified economy has weathered the storm comparatively well.

Unemployment - at just over 7 per cent - is among the lowest of any province. Non-residential capital spending in 1986 rose at a startling 12 per cent - three times the national average.

Economists believe that the province's deteriorating budgetary deficit is precipitating something of a slowdown, however. Retail sales, which rose by over 15 per cent as recently as 1985, *are this year expected* to be up just 3.5 per cent.

In October, the west's discontent coalesced into the formation of a new political party - the Reform Party of Canada - whose primary aim - to improve the lot of the region and its 29 per cent of the Canadian populace - was encapsulated in the sentence: "The West wants in, not out" by party leader, Mr Preston Manning at the founding convention.

The party's creation was perhaps rendered necessary by the increasingly lofty ambitions of *another western progeny* - the NDP - founded as the Co-operative Commonwealth Foundation in Regina, Saskatchewan in 1933.

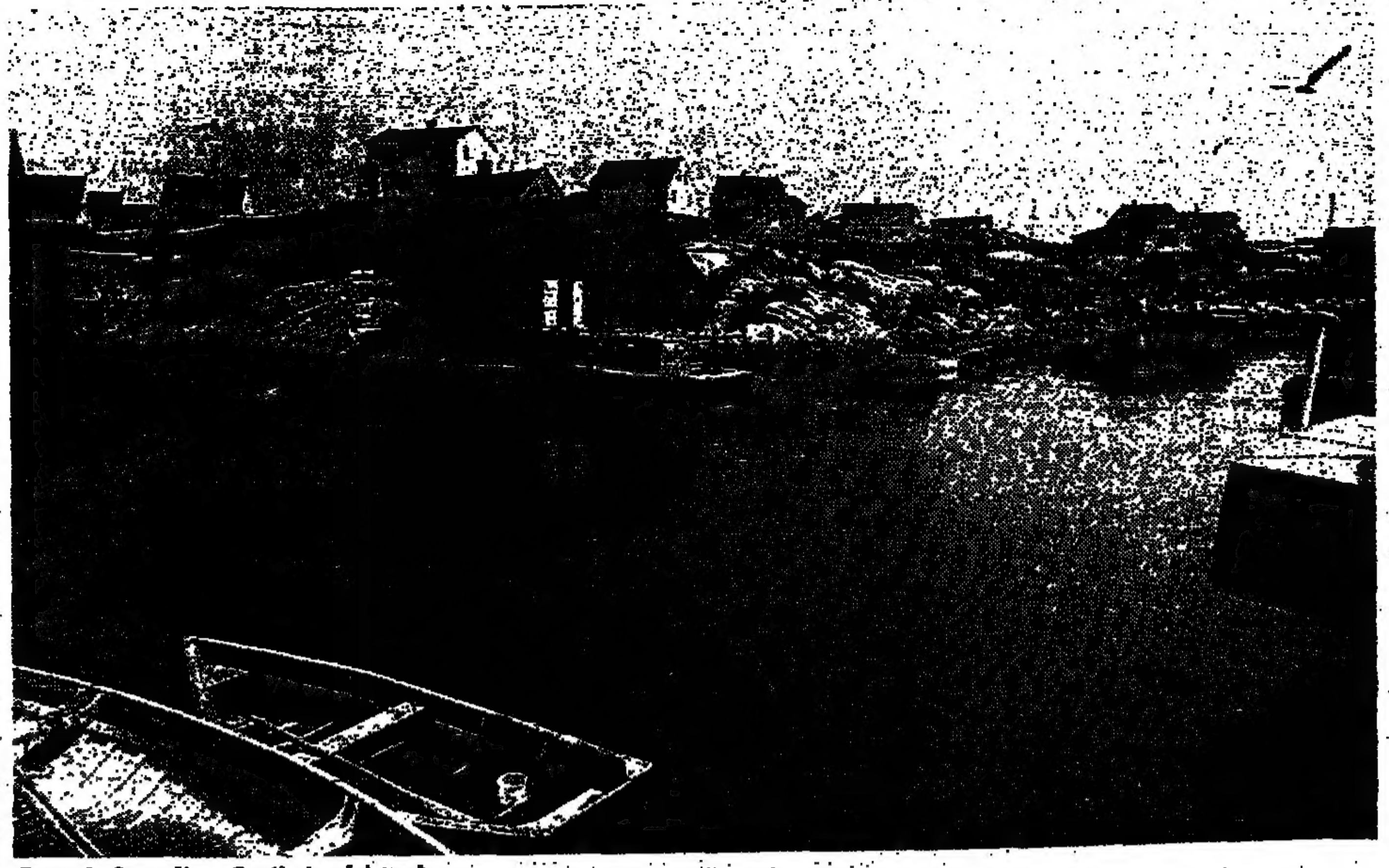
But it is the NDP which poses the *more immediate* threat to the current right-of-centre consensus in the region. In addition to being the party of government in Manitoba, the NDP constitutes the official opposition in British Columbia and Saskatchewan alike.

Indeed, in the latter the party and its recently-appointed (but widely known) leader, Mr Roy Romanow, comfortably lead the polls.

Nevertheless, the right is not yet ready to relax its grip on all points west of Flin Flon and south of the territories. Premiers vander Zalm, Getty and Devine all began their present five-year terms in 1986.

Mr Mulroney will be able to count on continuing staunch support from the three western-most provinces on major issues until his own mandate expires in September 1989.

David Owen



Peggy's Cove, Nova Scotia tourist spot

Atlantic provinces

Swing as economies trail

THE FOUR Atlantic provinces - Newfoundland, New Brunswick, Nova Scotia and Prince Edward Island - traditionally Canada's poorest, have been trailing the country in economic recovery but leading it in a political swing to the left.

The region's most noteworthy political event of 1987 was the crushing defeat of Mr Richard Hatfield, the New Brunswick premier whose 17-year reign came to an abrupt end when Mr Frank McKenna's Liberals captured all 58 legislature seats in the October 12 election.

Mr Hatfield had always been something of an anomaly among premiers. A bachelor who collected dolls for a hobby, he won praise for making conservative New Brunswick Canada's first officially bilingual province, and for crossing political lines to support former Prime Minister Pierre Trudeau's efforts at Constitutional reform.

But public doubts about Mr Hatfield's personal lifestyle reached fever pitch three years ago when police checking luggage during a tour of the province by the Queen found a small quantity of marijuana in his suitcase.

Mr Hatfield stood trial for mar*ijuana possession*. He was acquitted but his career never recovered.

Ironically, opponents of Prime Minister Mulroney's Meech Lake constitutional accord now hope that Mr McKenna, who expressed reservations about the pact during the election campaign, may scuttle the deal.

Mr McKenna, 39, has said that he will first try to negotiate changes - but Mr Mulroney has maintained that the deal is inviolate.

Mr McKenna's crushing victory - only once before has a single party taken every seat in a Canadian provincial election - came on the heels of Liberal wins in tiny Prince Edward Island and powerful Ontario.

This was enough to persuade Nova Scotia's Conservative premier, Mr John Buchanan, to postpone an election some had expected him to *call for late* autumn.

Polls indicate that the affable Mr Buchanan, 56, is running well ahead of his own party in popularity. But his *government* has been hurt by a series of scandals and ineptitude among ministers.

Unlike New Brunswick, however, popular sentiment has yet to fall in behind a single party, with both the Liberals and New Democratic Party showing well in recent polls.

The trend away from the Tories may reflect the region's traditional preference for having provincial and federal governments of different political stripes. All four Atlantic provinces had Conservative governments when Mr Mulroney came to power in 1984.

The safest remaining Tory premier in the region is Newfoundland's Mr Brian Peckford, whose habit of scrapping publicly with *prime ministers regardless of* political affiliation stands him in good stead with voters in the remote island province.

The booming fishery has helped the region to emerge from the early 1980s recession

Most recently, Mr Peckford has clashed with Ottawa over fisheries *negotiations* with France, which claims the right to exploit extensive areas off the Canadian coast by virtue of its ownership of two tiny islands off south Newfoundland called St Pierre and Miquelon.

Mr Peckford complained bitterly last winter when an interim deal was struck without Newfoundland's knowledge. This autumn, the province stormed out of negotiations, claiming that Ottawa was not being tough enough.

Later, Canada broke off the talks and barred French vessels from its ports and waters. France responded that it would step up fishing in the disputed zone (which Canada insists is already seriously overfished), and use its navy if necessary to protect French fishing vessels.

In recent weeks, reports suggest, a *more conciliatory mood* has hesitantly emerged, with the boundary dispute likely to be sent to international arbitration.

The importance of *fish* to the region can be seen from its role in the recent modest economic upturn. Four years ago, low prices and high interest rates forced three giant east coast processing companies into virtual bankruptcy.

A major restructuring, with substantial government financing, produced two companies from the wreckage - both of which are now enjoying unprecedented prosperity.

The booming fishery and strong performance *in the* forestry and mining sectors, have helped the region to emerge from the recession of the early 1980s - albeit well behind much *of the rest of the country*.

Unemployment now ranges from 9.7 per cent in Nova Scotia to 15.3 per cent in Newfoundland - well above the *national* average, but a substantial improvement from recent years.

A modest offshore oil and gas exploration boom in the late 1970s and early 1980s, on which Nova Scotia and Newfoundland pinned much hope for future prosperity, has essentially petered out.

One submarginal gas field was found off Nova Scotia and two more promising fields were located off Newfoundland. The latter await higher oil prices for development; the former needs both higher prices and larger reserves.

In addition, Texaco Canada wants to explore for oil on Canadian sections of George's Bank.

Successive federal governments have tried a variety of programmes to improve the Atlantic region's economy, mostly without success. A regional economic think tank, the Atlantic Provinces' Economic Council, recently pointed out that the region's earned income per capita in 1984 stood at 66 per cent of the national average. In 1926, the corresponding figure had been 65.2 per cent.

Now the Mulroney government is trying the Atlantic Canada Opportunities Agency which, unlike previous schemes, will operate with a local board of directors and a headquarters within the region.

Parker Donham